

VAT NEWS

TEMPORARY DECREASE OF LUXEMBOURG VAT RATES - KEY TAKEAWAYS

I. Background

Following the example of other countries, the Luxembourg government announced recently a package of measures to tackle inflation and mitigate the financial impact for both companies and households. Such initiative is the result of negotiations among the members of the Luxembourg “tripartite” (i.e., the Luxembourg government, employers, and trade unions).

Among others, it has been decided that the Luxembourg VAT rates on goods and services shall be temporarily decreased. Below you will find a brief overview of the current VAT rates and the envisaged amendments as well as some key attention points for the companies carrying out economic activities in Luxembourg.

II. Current VAT rates in Luxembourg

The Luxembourg VAT legislation currently foresees four (4) VAT rates that apply depending on the nature of the underlying goods and services, i.e. the super-reduced rate of 3%, the reduced rate of 8%, the intermediate rate of 14% and the standard rate of 17%. For illustration purposes, please find below an indicative table:

| | |
|--------------------|---|
| Super-reduced (3%) | Books/newspapers, pharmaceutical products, food for human consumption, hotel & restaurant services, water supply etc. |
| Reduced (8%) | Gas, electricity, heat supplied by a heating system, hairdressers, plants, repair of bicycles etc. |
| Intermediate (14%) | Management of credits and credit guarantees by a person other than the one granting them, management & safekeeping of securities, wines with 13° or less alcohol (except for fortified wines, sparkling wines & liqueur wines) etc. |
| Standard (17%) | Goods /services not subject to the other rates |

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III. The decreased VAT rates in Luxembourg

The package of measures involve the decrease by 1% of the current Luxembourg VAT rates, to the exception of the super-reduced rate which remains 3%:

| Current | Decreased |
|--------------------|--------------------|
| Super-reduced (3%) | Unchanged |
| Reduced (8%) | Reduced (7%) |
| Intermediate (14%) | Intermediate (13%) |
| Standard (17%) | Standard (16%) |

The decreased VAT rates will enter into force on 1st January 2023 and will be applicable until 31st December 2023.

IV. Key attention points

In light of the envisaged amendments, specific attention should be drawn to the following:

- ▶ businesses should update their accounting systems with the new decreased VAT rates, knowing that it should be adjusted again by January 1, 2024;
- ▶ incoming invoices should be carefully checked to ensure that the correct VAT rate has been applied;



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Besides these rather immediate and straightforward points of attention, one should consider that the main complexity is likely to come from the specific rules determining the tax point of supplies of services and goods as the application of a wrong VAT rate may lead to financial consequences.

In this respect, the decision of the Court of Justice of the European Union (CJEU) in a case where the supplier applied on the invoices issued to final customers an incorrect VAT rate would be of a particular interest (CJEU, C-378/21, P GmbH).

In conclusion, although this measure seems simple in essence, attention should be paid to determine whether a transaction shall fall within the scope of the decreased VAT rates. Luxembourg businesses shall take into consideration the Luxembourg VAT rules related to the chargeable event and the chargeability of VAT which vary depending on the nature of the supplies.

V. How could BDO help you ?

Should you have any questions on the above, or need assistance with the implementation of these new rules, tailored to your needs and the industry in which your business operates, please feel free to contact our VAT experts.

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INTERESTED?

Get in touch with:



Erwan Loquet

Partner

+352 45 123 436
erwan.loquet@bdo.lu



Aurore Cersowsky

Director

+352 45 123 482
Aurore.cersowsky@bdo.lu



Nicolas Devillers

Director

+352 45 123 660
Nicolas.devillers@bdo.lu



Dimitrios Karoutis

Manager

+352 45 123 882
dimitrios.karoutis@bdo.lu

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