KLEYR GRASSO

Independent law firm

08/03/2024

Tax measures for the housing market and real estate investments – draft bill n°8353

The draft bill n°8353 filed by the government on 7 February 2024 provides a package of measures to support the housing market and to enhance real estate investments for individuals managing their private wealth (hereafter the "**Draft Bill**").

Some of the said measures deals with tax aspects, including temporary rules applicable for the 2024 year as well as permanent rules. These temporary rules for 2024 are retroactive and applicable as of 1 January 2024.

For transactions realised in 2024 (from 1 January 2024 to 31 December 2024), the following main tax measures are proposed:

> **Increase of the existing allowance for registration tax and transcription duties, commonly known as "*Bëllegen Akt*"**. For the acquisition of the main residence, the allowance will be temporarily increased from EUR 30,000 to EUR 40,000 per individual.

> **New allowance for the registration tax and transcription duties for investment in rental properties.** This new allowance amounts to EUR 20,000 per individual.

> **Accelerated depreciation for rental income deriving from real estate properties acquired in 2024 in future state of completion (VEFA).** The accelerated depreciation rate will be increased to 6% for a period of 6 years for acquisitions of buildings under construction during the 2024 year. The maximum annual amount that can be claimed under this measure is capped at EUR 250,000.

> **Lower tax rate for capital gains on real estate.** Capital gains realised by individuals resulting from the disposal of a Luxembourg real estate property ("REP") held for more than 2 years will now be subject to the so-called "quarter of the global rate" *(quart du taux global*), instead of "half the global rate" (*demi-taux global*).

> **Neutralisation of capital gains on real estate.** A tax-neutral transfer regime for capital gains will be introduced for Luxembourg REP held for more than 2 years by individuals, provided that the gains are reinvested to a REP intended for social renting or to a property meeting the requirements for energy performance classes, thermal insulation, and environmental performance A+.

In addition to these measures limited to the 2024 year, it is also proposed to introduce permanent rules aiming to support the housing market and to enhance real estate investments:

> **Increase of the deductible interest expenses in relation with the acquisition of the main residence.** A Grand-Ducal Decree will increase by one-third the maximum amount of tax deductibility for interest expenses related to the residence occupied by the owner.

> **Increase of the exemption for income from social renting.** For rental income deriving from organisations operating in the field of social rental management, the exemption will be increased from 75% to 90%

> **New partially exempt rent subsidy for employees below 30.** In response to the challenge faced by employers in attracting candidates due to the high cost of rental housing, often considered a determining factor in accepting job offers in Luxembourg, it is proposed to introduce a partial exemption on bonuses granted by employers to employees under the age of 30 for the purpose of renting a housing unit occupied as their primary residence.

> **Modification of the holding period to determine the tax regime applicable to real estate capital gains.** Currently, real estate capital gains realised by individuals are fully taxable as speculative gains when the REP is held for less than 2 years. Beyond 2 years, the capital gain is subject to tax at "half the global rate" (*demi-taux global*) with an allowance of EUR 50,000 (doubled in case of joint taxation). It being understood that during the 2024 year the "quarter of the global rate" (*quart du taux global*) will apply. As of 1 January 2025, the relevant holding period will be 5 years starting from their acquisition or construction in order to reduce speculation in the real estate market.

> **Extension of the real estate capital gains exemption for disposals to social organisations.** The current tax exemption applies to capital gains realised by individuals when disposing of Luxembourg REP to the State, municipalities, and associations of municipalities. It will be now expanded to include disposals to the Luxembourg Housing Fund ("*Fonds du Logement*"), a public entity responsible for social housing.

The present newsletter is not intended to be exhaustive but rather aims solely to provide (i) a general overview of the various modifications made to existing aids and (ii) new aids to be introduced by the Draft Bill.
We invite you to reach out to our dedicated team for any questions or assistance regarding the Draft Bill.

KEY CONTACT

Lionel BONIFAZZI Partner

Valeria ERCOLINI Counsel