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# Land tax and the mobilisation of land and housing

The current land tax (IFON) in Luxembourg dates back to the 1930s. Its reform has been part of the political discussion for years. The reform of the IFON is a key element of the package of measures to combat the increasing housing shortage in Luxembourg, which the government has presented together with the introduction of a tax on the mobilisation of land (IMOB) and a tax on the non-occupation of housing (INOL).

## The objectives of the bill

The coalition agreement 2018-2023 states that *“the reform of the land tax, which aims to discourage speculation, will be linked to the reform of the “new generation” General Development Plans (PAG). A tax exemption on owner-occupied real estate will be introduced. The reform of the land tax will provide an opportunity to replace and simplify the system of specific municipal taxes for non-occupation or non-use of certain properties for construction purposes”*.

The draft bill on the land tax, the land mobilisation tax and the tax on the non-occupation of housing and complements the broad lines set out in the coalition agreement by setting the following main objectives:

- Eliminate the inequalities caused by the current land tax;
- Creating a new land evaluation model to establish the base value for objective, transparent and fair taxation;
- Addressing the housing shortage by incentivising owners to mobilise their land and make their existing housing available on the rental market.

The bill also foresees to:

- maintain the municipal character of the land tax;
- reduce the tax burden on the owners' main residence;
- replace the specific municipal tax on non-occupancy with a uniform and more efficient national tax;
- establish a national register of non-occupied buildings and dwellings;
- use land mobilisation as a guiding tool in spatial planning;
- develop efficient IT tools that allow for regular and largely automated updating of property evaluation.

The land tax, firstly, taxes land in urban areas or areas designated for urbanisation whose main purpose is the construction of buildings. The amount of the tax bases itself on the inherent value of the land, largely conditioned by the building potential according to the classification in the General Development Plans (PAG).

Secondly, the land mobilisation tax aims to create an incentive for the actual construction of buildings on land earmarked for urbanisation. Otherwise, the mobilisation tax becomes payable.

Finally, the tax on the non-occupation of housing aims to tax the building constructed for residential purposes that remains unoccupied.

# History of the land tax

In the Grand Duchy of Luxembourg, the land tax is one of the oldest taxes, but also one of the taxes whose reform has been awaited the longest.

The land tax was first introduced in the First French Republic in the form of the *"contribution foncière"* by the law of 3 Frimaire of the year VII (23 November 1798), when the country was part of the *"Département des Forêts"*. Its current form goes back to the German Land Tax Act (GrStG) of 1 December 1936 and the German Valuation Act (BewG) of 16 October 1934. After these texts were introduced by the German occupying power in Luxembourg during the Second World War, their continued validity was confirmed by the Grand Ducal Decree of 26 October 1944 on taxes, levies, contributions and fees.

The taxation procedure consists of two main steps. First, the Luxembourg Inland Revenue must periodically determine the basic values of the tax units by sending a unit value sheet to the taxpayer. Then, each municipality annually decides its municipal tax rate, by which the above-mentioned unit value is multiplied, before notifying the taxpayer of the tax amount due in the form of the land tax assessment notice.

However, it quickly became apparent in both Luxembourg and Germany that the regular updating of these assessments was particularly cumbersome, as it had to be done individually and manually for each parcel of land. These reassessments proved so laborious that the values currently used in Luxembourg have not been updated since 1941. In Germany, where the last general fixing of land values dates back to 1964 and even to 1935 for the territory of the former German Democratic Republic, these evaluations were the subject of a landmark ruling by the Federal Constitutional Court on 10 April 2018. While the judges in Karlsruhe found that the lack of representativeness of the land values determined did not in itself constitute an unconstitutionality, they declared that the land evaluation system violated the constitutional principle of equal treatment, as it led to unequal treatment of comparable properties caused by the outdated land value determination. It follows that the German land tax is based on a foundation that violates the German Constitution.

The Luxembourg system, which is virtually identical to the German one with the exception of some minor adjustments made over the years, therefore faces the same accusations.

The new system must therefore first eliminate the inequalities that result from the current system. While certain differences between municipalities are inherent and acceptable in a system where municipal autonomy dictates that the municipal council can adjust the tax rate, the differences are found not only between municipalities but also within a municipality and for the same type of property.

# A new formula for the evaluation of land

The objective of the bill is to revalue all land, ensuring that the proportions of land values are maintained in determining the tax base.

The system used for this purpose must be fair, objective and transparent. The evaluation of real estate must take into account the proportions of actual values in order for the system to be fair and for the tax to respect the principle of proportionality and equality before the law. Thus, if the market values of two given properties are €250,000 and €500,000 respectively, the tax evaluation system must reflect that the first property is worth twice as much as the second.

The new formula for evaluing land takes into account the most determining factors, namely:

1. the building potential,
2. the type of permitted use,
3. the geographical location,
4. the stage of development (immediate or non-immediate availability for construction),
5. the available surface,
6. the number of facilities and services available nearby,
7. the general price level for real estate.

### Explanation of the factors

The model for the evaluation of land to determine the tax base has been scientifically verified and calibrated by the Luxembourg Institute of Socio-Economic Research (LISER). Their study (in French) can be downloaded here.

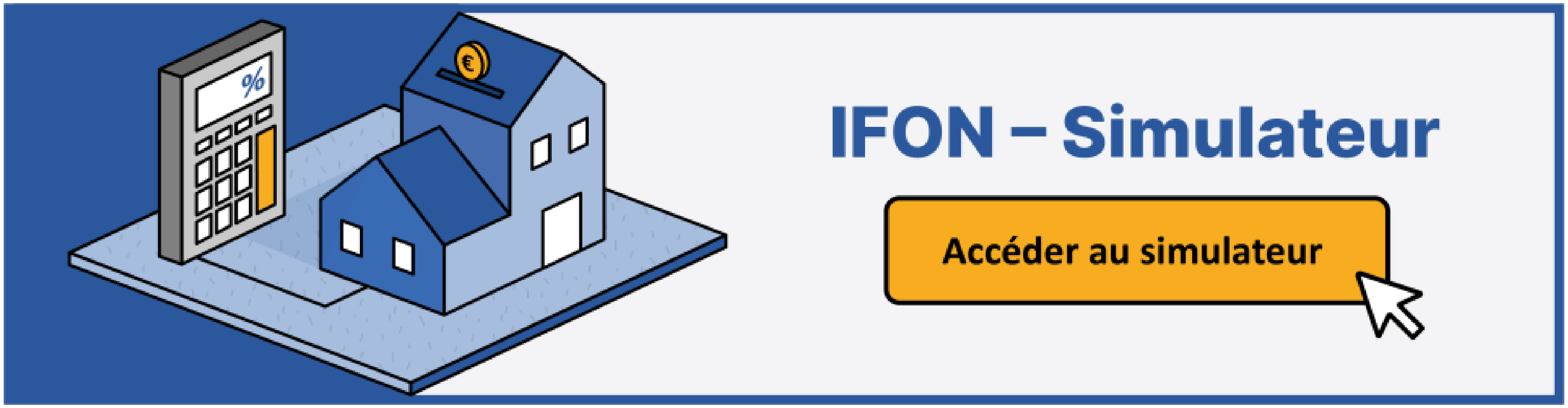
# The new land tax

The amount of land tax to be paid depends on the basic value of the property, possibly divided among several owners, the municipal tax rate and potential deductions. To enable citizens to estimate already now the land tax they will have to pay after the reform, the government has set up a simulator that can be reached by clicking on the image below.

The basic value of the land is determined using the formula explained above. At this stage, only properties whose reform of the PAG has been completed can be taken into account.

The municipal character of the land tax will remain after the reform. The municipality sets the tax rate, which can range from 9% to 11%. Since it is not known at this stage what tax rate the individual municipalities will set, the simulator shows the range in which the land tax can move.

Finally, the government has provided an allowance for owners who live on their own property. This allowance is part of the fight against the housing shortage and is intended to reduce housing costs for taxpayers who only own the building that serves as their usual residence.




The revenue from this municipal tax will amount to between approximately 39 and 47 million euros per year, depending on the municipal tax rate that the municipalities will set. As a reminder, in 2021, the land tax in its current form had generated revenues of around 39.1 million euros.

# Introduction of a national tax on the mobilisation of land

Few municipalities have used the existing land mobilisation instruments at the local level, especially the current B6 land tax, so that they have never had the desired effect.

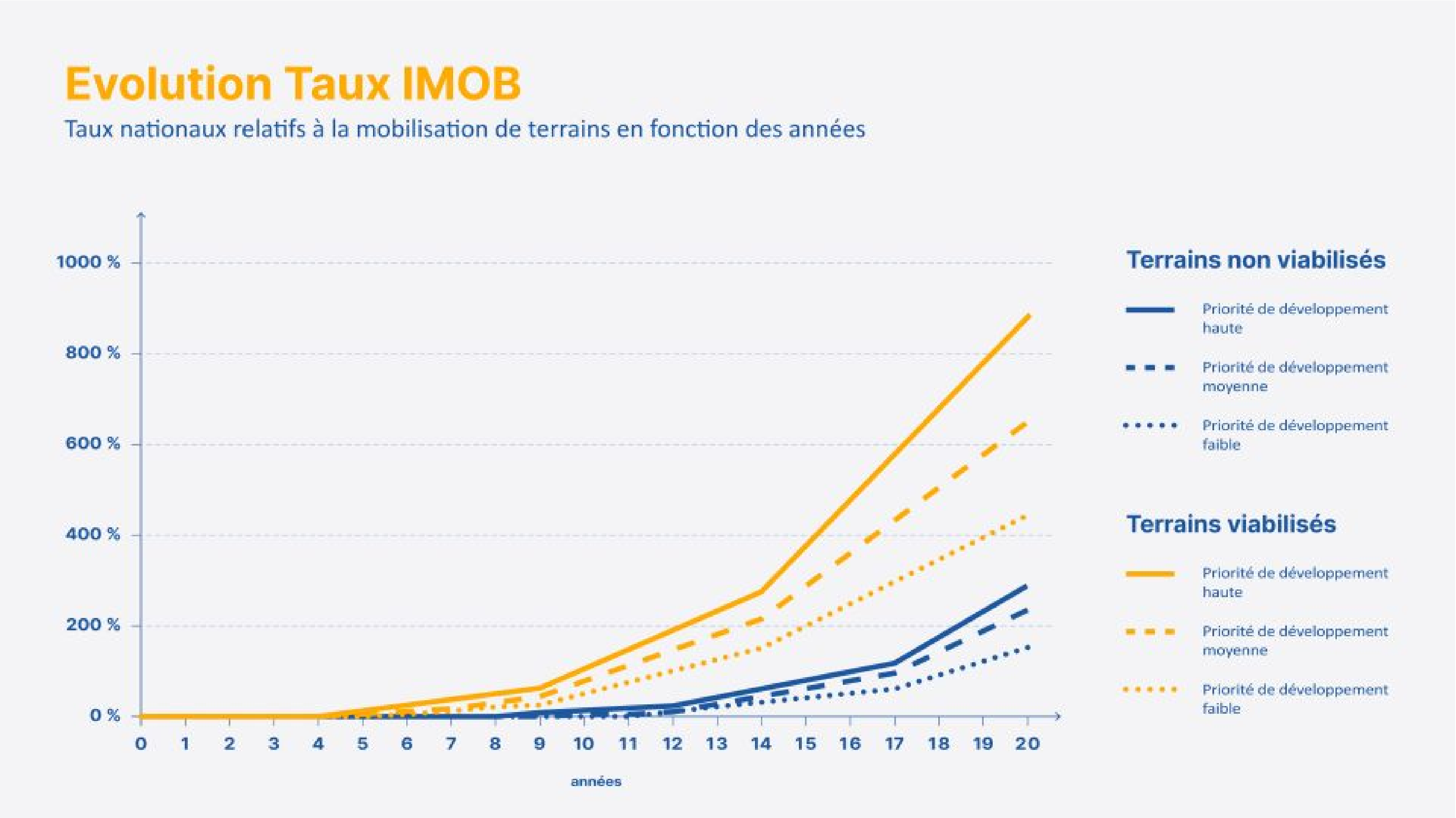
Therefore, the government proposes to replace these local instruments with a land mobilisation tax at the national level, leading to a uniform situation across the country and making this new instrument a mandatory rather than a voluntary one. The tax applies where construction can take place, regardless of ownership and cadastral boundaries.

If a plot is of a size or configuration that does not lend itself to the construction of dwellings in compliance with the prescribed setbacks or dimensions, it will not be taxed. Similarly, no tax is levied on land that already has buildings and on which no additional buildings can be constructed. However, a plot of land with a residual area sufficient to construct a new building, even if a building already exists, is taxed if the available space is not used.


This tax requires the establishment of a national register of undeveloped land, listing all land available for development under the PAG and PAP. A distinction is made between developed land, which is immediately available for construction, and undeveloped land, which requires prior road works and public facilities and thus takes longer until constructions are possible.

The tax amount is then adjusted for each category depending on how many years the land has remained undeveloped and whether it is based in a priority area in terms of spatial planning policy. The progressive development of the tax rate over the years allows increasing the incentive to build over time while granting owners time to plan for construction. The longer it takes to build on an undeveloped plot, the higher the rate increases. Most importantly, the progression of the rate also allows the construction industry to respond to and anticipate possible increases in demand.

The following chart illustrates different tax rates and their progression:




Finally, the government plans to introduce a flat rate deduction per child under the age of 25. This measure will exempt one plot of land of an appropriate size to enable the construction of a single-family house per child from the tax.

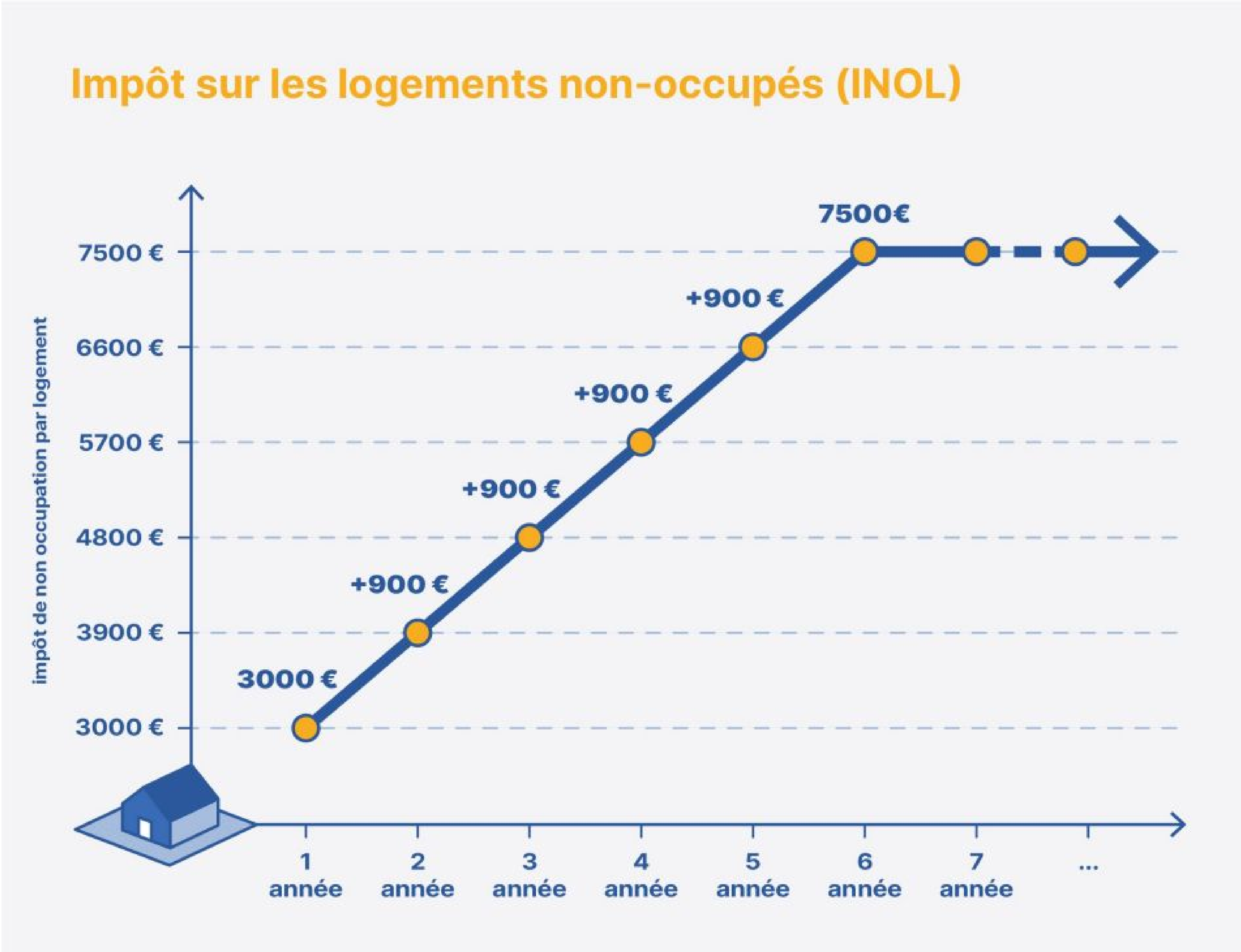
The tax on land mobilisation will be a national tax, the revenue from which will go entirely to the state. Tax rates are progressive over time. Therefore, the revenues are also progressive. At the beginning of the tax's entry into force, revenues will be zero, but they will develop steadily over time depending on the mobilisation of land. According to initial simulations, the tax will generate revenues of 4 million euros five years after its introduction. After 20 years, revenues will amount to over 270 million euros.

# The introduction of a national tax on the non-occupation of housing

L'introduction d'un impôt national sur les logements non-occupés est complémentaire à la réforme de l'impôt foncier et à l'impôt à la mobilisation de terrains. Par l'introduction de cet impôt, le gouvernement entend mobiliser les logements existants non habités.

L'impôt communal sur les logements non-occupés, introduit en 2008 à titre facultatif dans le cadre du Pacte logement 1.0 n'ayant pas porté les résultats escomptés, sera à l'avenir remplacé par ce nouvel impôt national obligatoire.

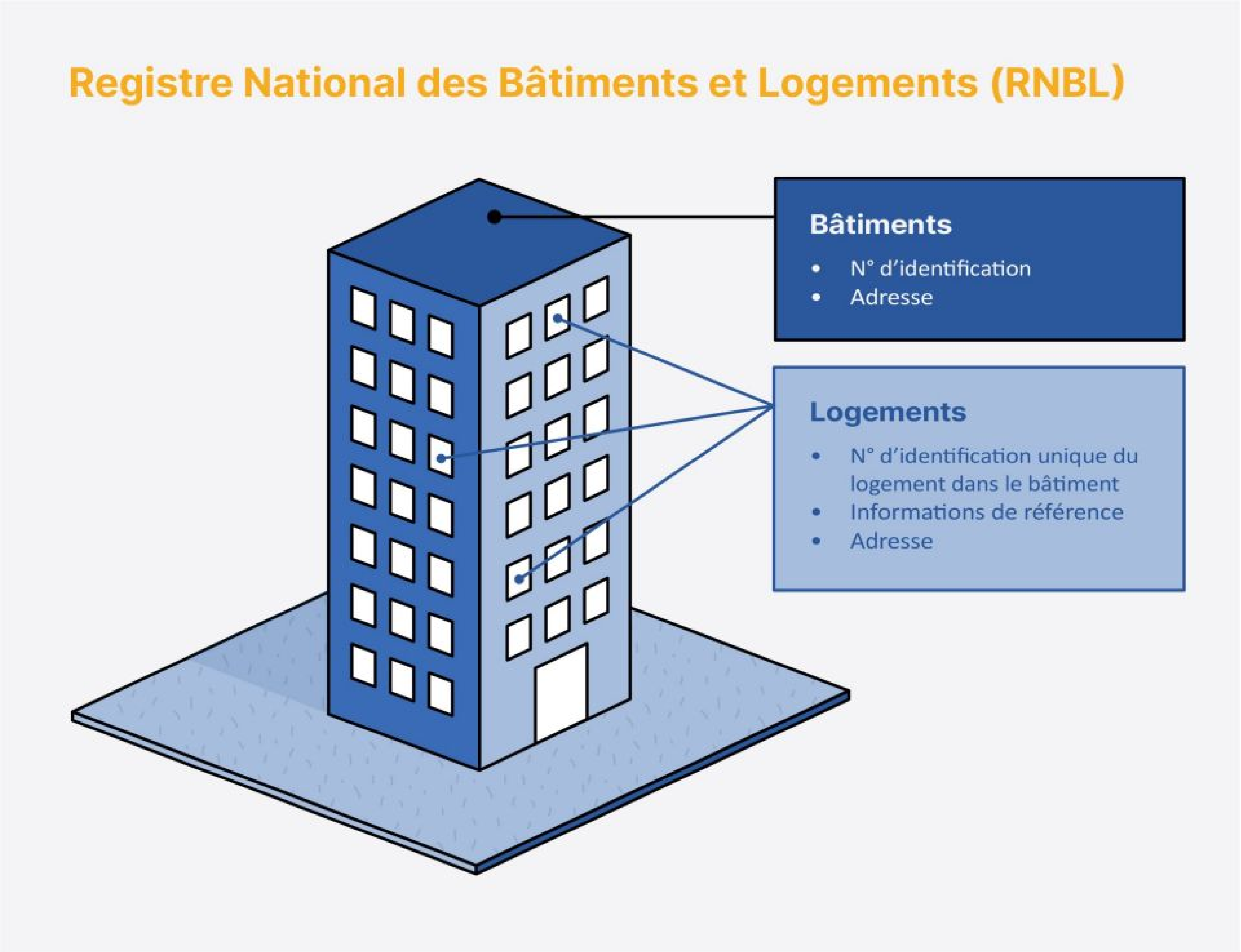
Un logement est considéré non-occupé si aucune personne physique n'est inscrite au registre national des personnes physiques pendant une période de six mois consécutifs. La commune peut encore considérer d'autres cas de figure énumérés par la loi. Il revient à la commune de constater l'inoccupation des logements sur son territoire et de fournir les informations nécessaires à l'Administration des contributions directes. Celle-ci sera compétente pour la fixation, la perception et le recouvrement dudit impôt.




Once the municipality has established the non-occupancy of a dwelling, the non-occupancy tax amounts to 3,000 euros per dwelling in the first year. In subsequent years, the tax is increased by 900 euros per year up to a maximum of 7,500 euros. If the dwelling remains vacant, this amount is due annually. The revenue from this national tax will amount to about 14 million per year.

The collection of the tax on the non-occupation of housing requires the establishment of a national register of buildings and dwellings “RNBL”.

The first objective of the RNBL is to assign a unique identification number to all types of buildings and to each separate housing unit that is part of a building. This will allow municipalities to register their residents not only at an address on their territory, but also in a dwelling identified by its national identification number. This is essential to implement the tax on the non-occupation of housing.



# FAQ : Questions / Answers

### General questions

### Land tax (IFON)

### Land Mobilisation Tax (IMOB)

### Tax on the non-occupation of housing (INOL)

### National register of buildings and dwellings (RNBL)


IFON
Simulateur
%
Accéder au simulateur

## Rapport du LISER

5 octobre 2022

RAPPORTS

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avec la collaboration de
Patrick **BOUSCH**
Antoine **PACCOUD**
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# PROJET DE RÉFORME DE L'IMPÔT FONCIER

Évaluation réalisée par le LISER


# For more information

## Related procedures

- Projet de loi sur l'impôt foncier, l'impôt à la mobilisation de terrains et l'impôt sur la non-occupation de logements

## Bodies and departments

- Portail du logement
- Gestion locative sociale (GLS)
- Observatoire de l'habitat
- Luxembourg Institute of Socio-Economic Research (LISER)

## Press release

- "Increasing the supply of housing!": Reform of the land tax and the mobilisation of land and housing

### Minister

- BACKES Yuriko
- BOFFERDING Taina
- KOX Henri

### Organisation(s)

- Ministry of Finance
- Ministry of Home Affairs
- Ministry of Housing

### Topics

- Accomodation / Real estate
- Economy / Finance
- Municipalities

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