

TAX

TAXATION OF INDIVIDUALS

2020 - LUXEMBOURG

Now, for tomorrow







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RESIDENTS

		Without children	With dependent children	> 64 years old
Single		1	1A	1A
Married		2	2	2
Partner*		1	1A	1A
Divorced / Separated	> 3 years	1	1A	1A
	< 3 years	2	2	2
Widowed	> 3 years	1A	1A	1A
	< 3 years	2	2	2

*Upon joint request, partners (with partnership and common residence on all year) can benefit from tax class 2, after the end of the year, by filing a joint tax return.

NON-RESIDENTS

		Without children	With dependent children	> 64 years old
Single		1	1A	1A
Married	Without tax assimilation	1	1	1
	With tax assimilation*	2	2	2
Partner**		1	1A	1A
Divorced / Separated	> 3 years	1	1A	1A
	< 3 years	2	2	2
Widowed	> 3 years	1A	1A	1A
	< 3 years	2	2	2

* Upon joint request and subject to the conditions of the tax assimilation, spouses can obtain a personalised tax rate calculated in tax class 2 on household worldwide income. In such a case, the filing of a joint tax return is mandatory.

** Upon joint request and subject to the conditions of the tax assimilation, partners (with partnership and common residence on all year) can benefit from tax class 2, after the end of the year, by filing a joint tax return.

INDIVIDUAL TAXATION

Upon joint request, spouses / partners - resident or non-resident - can opt for an individual taxation. They are then ranked in tax class 1 (whether or not they have children in the household, and whether or not they are older than 64 years-old).

TAX RATES

	Marginal tax rates		
	42.80% including the employment fund contribution of 7% <i>Applicable to the taxable income (€)</i>	44.69% including the employment fund contribution of 9% <i>Applicable to the taxable income (€)</i>	45.78% including the employment fund contribution of 9% <i>Applicable to the taxable income (€) ≥</i>
Tax class 1	109,450 to 150,000	150,050 to 200,000	200,050
Tax class 1A	109,450 to 150,000	150,050 to 200,000	200,050
Tax class 2	200,050 to 300,000	300,050 to 400,000	400,050

AVERAGE TAX RATES*

Taxable Income (€)	Tax class 1	Tax class 1a	Tax class 2
30,000	8.51%	3.50%	1.94%
60,000	22.49%	21.23%	8.91%
90,000	28.90%	28.05%	16.57%
120,000	30.16%	29.57%	21.34%
150,000	32.13%	31.66%	24.87%
180,000	33.60%	33.21%	27.23%
210,000	34.70%	34.36%	28.95%

* Including the employment fund contribution of 7% or 9%.

SOCIAL SECURITY RATES

	Employee's part	Employer's part
Pension insurance*	8%	8%
Health insurance*	3.05%	3.05%
Dependence insurance**	1.40%	n/a
Health at work*	n/a	0.10% - 0.11% ***
Accident insurance*	n/a	0.75% ****

Mutualité des employeurs	Employee's part	Employer's part
Class 1 (absenteeism rate < 0.65%)	n/a	0.46%
Class 2 (absenteeism rate < 1.60%)	n/a	1.07%
Class 3 (absenteeism rate < 2.50%)	n/a	1.58%
Class 4 (absenteeism rate ≥ 2.50%)	n/a	2.70%

* The contributions are levied up to the annual ceiling of €128,519.65 (index 834.76)

** The dependence insurance is levied at a fixed rate of 1.40% computed on the gross salary (without ceiling) after deduction of a monthly allowance.

*** Companies registered with the occupational health services for the industry (STI) / multi-sector occupational health services (STM).

**** Single rate of 0.75% multiplied by a bonus / malus factor depending on the benefits related to accident at work received during an observation period.

***** The contribution rate varies according to the absenteeism rate of the employees within the company.

TAX RELIEF FOR DEPENDENT CHILDREN

Tax relief of €76.88 / month or €922.50 / year per dependent child granted as follows:

Children qualifying for family allowances purposes	Tax bonus paid by the CAE to the beneficiary of the family allowances
Children not qualifying for family allowances purposes	Tax relief through the filing of a tax return / annual tax adjustment
Resident student pursuing higher education studies	Tax bonus included in the financial aid granted by the State
Non-resident student pursuing higher education studies	Tax bonus included in the financial aid granted by the CEDIES or Tax relief through the filing of a tax return / annual tax adjustment

BENEFITS IN KIND

HOUSING

Taxable BIK: 75% of the rent provided that the lease agreement is concluded by the employer.

COMPANY CAR (USED FOR PRIVATE PURPOSES)

- Lease contract before 01.01.2017: monthly BIK set as 1.5% of the acquisition price of the new car (options and VAT included, minus discount if any).
- Lease contract concluded as from 01.01.2017: monthly BIK differs according to the motorisation and CO₂ emission (from 0.5% to 1.8%)*.
- Additional taxation at the time of the repurchase by the employee if, at the time of the repurchase, the market value of the car exceeds the repurchase price paid by the employee.

CO ₂ emission according to NEDC standard*	Gasoline / hybrid / compressed natural gas	Diesel (single or hybrid)	100% electric or hydrogen
0 g / km	-	-	0.5%
> 0 – 50 g / km	0.8%	1.0%	-
> 50 – 110 g / km	1.0%	1.2%	-
> 110 – 150 g / km	1.3%	1.5%	-
> 150 g / km	1.7%	1.8%	-

* Leasing contract:

- concluded (or extended) **until 31.12.2019**: BIK evaluated based on NEDC standard until the end of the leasing contract.
- concluded **after 31.12.2019**: BIK evaluated based on NEDC standard until 31.12.2020 and on new WLTP standard as from 2021.

PREFERENTIAL LOANS OR INTEREST SUBSIDY

Preferential loan: taxable BIK calculated based on a reference interest rate of 1.50%.

Interest subsidy: taxable BIK corresponds to the nominal amount of the interest borne by the employer.

Tax exemptions applicable:

- Mortgage loans related to the taxpayer's private home: €3,000 / year (tax class 1) or €6,000 / year (tax classes 1a for single-parent families and 2 if jointly taxation).
- Other loans: €500 / year (tax class 1) or €1,000 / year (tax classes 1a for single-parent families and 2 if jointly taxation).

Preferential loans / interest subsidy are also exempted from social security contributions.

LUNCH VOUCHERS

Nominal value	€8.40	€10.80	€12.00
Tax exemption	€5.60	€8.00	€8.00
Personal contribution or taxable BIK	€2.80	€2.80	€4.00

Total social security exemption.

SPECIAL TAX REGIME FOR IMPATRIATES

Impatriates: employees moving from abroad for working in Luxembourg (under a secondment agreement or a local employment contract).

Tax exemptions: Luxembourg relocating expenses borne by the employer.

- Moving / family relocating expenses: total exemption
- School fees imposed for primary and secondary school in Luxembourg: total exemption
- Housing expenses: exemption with limits
- Cost of living allowance: exemption with limits
- Tax equalization: exemption with limits
- Etc.

Main conditions:

- Base gross remuneration: at least €50,000 per year
- Not have been Luxembourg resident or living less than 150 km from the Luxembourg border (during the past 5 years)
- Company employs - or commits to employ - at least 20 employees

Duration of the regime: 5 years

WITHHOLDING TAX RATES

DIVIDENDS

Withholding tax of 15% on the gross amount (or 17.65% on the net amount if tax borne by debtor company).

INTEREST

Paid by Luxembourg bank to Luxembourg resident

Final withholding tax of 20% on most interest.

Paid by foreign bank to Luxembourg resident

Possibility to opt for the final withholding tax of 20%, upon request via form 931.

Paid by Luxembourg bank to non-resident

No withholding tax but automatic exchange of information to country of residence's tax authorities.

DIRECTOR'S FEES

Withholding tax of 20% on gross amount (or 25% on net amount if tax borne by debtor company).

VAT of 17% (duty-free regime excepted).

Liable to social security contributions as self-employed (unless exemption due to insignificant income).

CAPITAL GAINS

CAPITAL GAIN ON DISPOSAL OF SHAREHOLDING / LIQUIDATION BONUS

Capital gain corresponds to the difference between the sale price and the acquisition price reassessed (if any).

	Shareholding held for a duration ≤ 6 months	Shareholding held for a duration > 6 months
≤ 10% shareholding in the company's capital	Taxation at the ordinary progressive rates (max. 45.78%) + dependence insurance contribution of 1.4%	Exemption
> 10% shareholding in the company's capital (significant shareholding)	Taxation at the ordinary progressive rates (max. 45.78%) + dependence insurance contribution of 1.4%	- Taxation at the ½ global rate (max. 22.89%) + dependence insurance contribution of 1.4% - Allowance of €50,000 (doubled for the spouses / partners jointly taxable)*

*Common allowance applicable to capital gains on disposal of significant shareholding and to capital gains on disposal of real estate renewable every 10 years.

CAPITAL GAIN ON DISPOSAL OF REAL ESTATE

	Real estate held for a duration ≤ 2 years	Real estate held for a duration > 2 years
Main residence	Exemption	
Other real estate	Taxation at the ordinary progressive rates (max. 45.78%) + dependence insurance contribution of 1.4%	- Taxation at the ½ global rate (max. 22.89%) + dependence insurance contribution of 1.4% - Allowance of €50,000 (doubled for spouses / partners jointly taxable)*. - Additional allowance of €75,000 if the capital gain is realized on sale of a property inherited in direct line and if the property was the parent's residence.

* Common allowance applicable to capital gains on disposal of significant shareholding and to capital gains on disposal of real estate renewable every 10 years.

INCOME RELATED EXPENSES

	Annual lump sum
Income related expenses for employees	€540
Travel expenses (depending on the distance home / place of work)	€0 to €2,574
Income related expenses for retired individuals	€300
Expenses related to income from movable income	€25 ⁽⁰¹⁾

DEBT INTEREST PAID ON THE MAIN RESIDENCE

	Max. annual deductible amount
2 years preceding the occupation of the property	Unlimited
Year of occupation + 5 years	€2,000
Subsequent 5 years	€1,500
Following years until the end of the mortgage contract	€1,000

TAX DEDUCTIBLE SPECIAL EXPENSES

	Max. annual deduction
Lump sum	€480 ⁽⁰²⁾
Real expenses in place of the lump sum of €480	
Debt interest and insurance premium (e.g. life, death, accident, disability, sickness, civil liability) taken together	€672 ⁽⁰³⁾
Single death insurance premium - Ceiling of €672 increased of:	€6,000 + additional increase according to age and number of dependent children
Insurance premium for daily allowance in case of work incapacity (for self-employed) - Ceiling of €672 increased of:	€1,500 ⁽⁰⁴⁾
Housing savings contributions (according to age of subscriber on 1 st January)	€1,344 (from 18 to 40 years old) €672 (other cases) ⁽⁰³⁾
Premiums paid under an old-age pension scheme	€3,200
Alimony paid to ex-spouse	€24,000

Expenses in addition to the lump sum of €480	
Social security contributions (dependance insurance excluded)	No ceiling
Contributions paid to Mutualité des employeurs (voluntary registration of self-employed / assisting spouse for the work incapacity risk)	No ceiling
Personal contributions to a supplementary pension scheme	€1,200
Eligible donations (minimum amount: €120 / year)	20% of the net income or €1,000,000
Losses carried forward	Under conditions

TAX DEDUCTIBLE EXTRAORDINARY CHARGES

	Max. annual deduction
Allowance for expenses related to support of children not living in the taxpayer's household (e.g. alimony)	€4,020 per child ⁽⁰⁵⁾
Allowance for housekeeping and childminding expenses	Lump sum of €5,400 or Real expenses (deduction according to own taxable income and family situation)
Allowance for certain types of costs (e.g.) : - cost for support of close relatives - medical costs - divorce costs - funeral costs	Real expenses (deduction according to own taxable income and family situation)
Venture capital investment allowance	30% of the taxable income
Allowance for sustainable mobility	- €5,000: zero emission vehicle - €2,500: hybrid rechargeable vehicle (emission ≤ 50g / CO ₂ / km and first registration after 31.12.2017) - €300: cycle with pedal assistance / cycle

TAX EXEMPTIONS

	Maximum exemption
Overtime for employees having not the higher ranking status	Base salary + salary supplement
Sunday / public holiday / night work	Salary supplement
Professional travel expenses with private car (travels home / place of work excluded)	Maximum €0.30 / km
Dividends*	50%
Movable income	Maximum €1,500 / year ⁽⁰¹⁾
Credit interest related to a housing savings scheme recognized in Luxembourg	100%
Life annuities resulting from an old-age pension scheme	50%
Social rental income (if renting through social estate agency)	50%
Pension of orphan paid to legitimate children or assimilated	100%

*Dividends paid by Luxembourg or EU resident companies or resident in a State with which Luxembourg has concluded a double tax treaty (fully taxable companies).

NOTES

⁽⁰¹⁾ Doubled for married / partners couples jointly taxable.

⁽⁰²⁾ Doubled in case of joint taxation if each spouse earns on employee income.

⁽⁰³⁾ Increased by the same amount for the spouse and each child.

⁽⁰⁴⁾ In case of joint taxation, the deductible amount applies for each spouse, to the extent that separate insurance contracts have been concluded.

⁽⁰⁵⁾ This allowance applies to the parent paying alimony for the child in the case of a divorced / separated couple.





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