Luxembourg income taxes 2017

Guide for individuals

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Basic principles

Resident vs. Non-residents

Resident taxpayer

An individual taxpayer qualifies as resident of Luxembourg when he has his tax domicile or usual abode in Luxembourg. Nationality is irrelevant when determining tax residence. A tax domicile is the permanent place of residence that the individual actually uses and intends to maintain. Individual taxpayers who don't have their tax domicile in Luxembourg will qualify as a resident if they have a usual abode in the Grand Duchy. To qualify for a "usual abode" status, a person needs a continuous presence of six months in Luxembourg (short absences are disregarded). The six-month presence can overlap two calendar years. The residence applies as from the first day of presence.

Non-resident taxpayer

An individual taxpayer qualifies as a non-resident of Luxembourg if he has neither his tax domicile nor his usual abode in Luxembourg.

Luxembourg residents are taxable on their worldwide income, while Luxembourg non-residents are taxable only on their Luxembourg source income.

Non-resident taxpayers are in principle not entitled to the same range of deductions available to Luxembourg resident taxpayers. Non-residents, who are taxable in Luxembourg on more than 90% of their worldwide income, can opt to be treated as if they were Luxembourg residents. For Belgian residents, the option regime can be applied if 50% of the household's professional income is taxable in Luxembourg. The option regime allows non-resident individuals to deduct expenses via their Luxembourg income tax return that they would not otherwise be entitled to deduct. The option regime is not mandatory and must be requested by a taxpayer via the income tax return. The tax benefit of the option regime has to be considered on a case-by-case basis.

Tax year

In Luxembourg, the tax year corresponds to the calendar year.

Income subject to taxes

The categories of income, after deduction of related expenses, are aggregated to determine the "net" total income. The "net income" is then reduced by various deductions in order to determine the taxable income:

- Employment income;
- Self-employment income;
- Dividend and interest income;
- Capital gains;
- Pension and annuity income;
- Rental and royalty income;
- Business income;
- Agriculture and forestry income;
- Miscellaneous income.

Questions & answers

What if my family remains in my home country?

If your family remains in your home country, the tax authorities should refer to the relevant Double Tax Treaty if any, to determine your tax residence.

2017 Tax reform

As from 1 January 2017, new tax measures for individuals entered into force further to the approval of the tax reform law by the Luxembourg Parliament. The changes impacted tax rates and increased the ceilings applicable to certain deductions. We have indicated a * where a change has occurred for 2017.

Tax rates

Income tax rates are progressive. They vary from 0% up to 42%*. A 7% surcharge for the Employment Fund applies on the income tax due. The surcharge for the Employment Fund amounts to 9% for taxpayers in tax class 1 or 1a with taxable income exceeding EUR 150,000 (EUR 300,000 for taxpayers in tax class 2).

As from 2017, the Temporary Budget Balance Tax no longer applies (previously it amounted to EUR 0.5% of the gross salary).

Tax classes

The calculation of Luxembourg income taxes also depends on the applicable tax class, established according to the individual's personal situation. There are three tax classes: tax class 2, tax class 1a, and tax class 1.

	Yearly net taxable income			
Tax liability depending on tax classe	EUR 30,000	EUR 60,000	EUR 120,000	EUR 240,000
Tax class 1	EUR 2,791	EUR 13,916	EUR 39,168	EUR 92,665
Tax class 1a	EUR 1,277	EUR 13,159	EUR 38,411	EUR 91,908
Tax class 2	EUR 678	EUR 5,584	EUR 27,833	EUR 78,337

	Residents	***Non-residents***
Tax class 2	Married taxpayers	Same as a resident if not living apart and if taxable in Luxembourg on more than 50% of their household's total professional income
	Widowed persons for the three years following the year in which they became widowed	Same as residents[1]
	Divorced or separated individuals for the three years following the year of divorce or separation	Same as residents[1]
	Civil partners who live together for a full fiscal year who elect to file jointly and have a recognised partnership in place for the full year	Same as residents if the Luxembourg income derived by either partner exceeds 90% of his/her worldwide income for the full year
Tax class 1a	Widowed persons not included in tax class 2	Same as residents[1]
	Individuals aged at least 65 on 1 January	Same as residents if specific conditions are met[1]
	Single parents where the child forms part of their household	Married taxpayers not living apart and taxable in Luxembourg on 50% or less of their household's total professional income[1]
Tax class 1	Taxpayers not included in tax classes 2 or 1a	Same as residents[1]

[1] *If they derive professional income taxable in Luxembourg.*

Questions & answers

Should I file jointly with my spouse?

Yes. Married taxpayers file jointly (with specific conditions to be met for non-residents). Civil partners who have a partnership agreement recognised in Luxembourg and who were living together for a full tax year can elect to file jointly (certain conditions apply for non-residents).

What else do I need to know about filing obligations?

In Luxembourg, not all taxpayers have to file an income tax return. But those who do, must file it prior to 31 March of the year following the income tax year (extension of this deadline is typically granted upon request). If the taxpayer is not subject to a filing obligation, he may file a simplified request for refund of excess withholding taxes under certain conditions. The purpose of such a request is to obtain a refund of excess payroll taxes (if any). This request must be filed prior must be filed prior to 31 December of the year following the income year.

The elements taken into consideration to determine if a taxpayer has to file an income tax return or request for a yearly calculation are:

- His/her residency status;
- His/her tax class;
- His/her level of income;
- The nature of income;
- The number of days worked in Luxembourg.

Employment income

Taxable employment income generally includes all benefits in cash or in kind earned from an employment activity. The taxable value of benefits in kind is assessed at the fair market value (i.e. the cost that the employee would have paid if he had paid for the benefit himself).

Luxembourg Income Tax Law, however, provides for a lump sum valuation method or exemptions for certain benefits in kind:

Luncheon vouchers

The taxable benefit per voucher is equal to EUR 2.80 for a voucher value of EUR 10.80*. The taxable basis is reduced to the extent that the employee contributes to the related cost.

Company car

The taxable fringe benefit generated by the private use of a company car is equal to the private mileage multiplied by the kilometer cost of the car. A logbook indicating private mileage is to be held by the employee. Alternatively, a lump sum valuation method is available, according to which the monthly taxable fringe benefit corresponds to a rate ranging from 0.5% to 1.8% (depending on the CO^2 emission and fuel type of the vehicle) applied on the price of the new vehicle, reduced by any discount granted (options and VAT included)*.

Free accommodation

The taxable fringe benefit amounts to the monthly rent and other rental charges paid by the employer. A reduction of 25% is applied to the rent, subject to certain conditions (the reduction does not apply to other rental charges) and a reduction of 17.5% is applied if the accommodation provided is furnished.

Interest subsidy by the employer

A loan granted by the employer at an interest rate lower than 1.5% (rate as applicable on 31 March 2016) generates a taxable fringe benefit. The taxable benefit corresponds to the difference between the 1.5% rate and the discounted interest rate.

Interest subsidies paid by the employer apply where the employer provides financial support in connection with loan interest that the employee has with a third party. The interest subsidy by the employer generates a taxable fringe benefit in the hands of the employee.

The above benefits are tax-exempt up to EUR 3,000 for mortgage loans related to the acquisition of a main residence and up to EUR 500 for other personal loans. These tax-exempt amounts are doubled for taxpayers filing jointly and single taxpayers with dependent children.

Occupational pension schemes

The employer's contributions to a qualifying occupational pension scheme are subject to a flat tax rate of 20% to be borne by the employer. Benefits received are tax-exempt in Luxembourg.

Specific income tax exemptions

- Gifts by the employer based on the employee's seniority with the company. The exemption varies between EUR 1,120 and EUR 4,500.
- Overtime pay and extra pay for working nights, Sundays or public holidays.
- Severance pay (conditions apply).

Employment related expenses

Professional expenses related to employment income are tax deductible. A yearly lump sum deduction of EUR 540 is allocated to every employee. This deduction can be replaced by real expenses incurred (evidence should be provided). In addition, commuting expenses are deductible based on the distance between the employee's home and work place. On a yearly basis, the maximum deduction for commuting expenses amounts to EUR 2,574.

3 Directors' fees

Gross directors' fees, whether they are paid to a resident or a non-resident director, are subject to withholding tax at the rate of 20%. The 20% tax is used as a tax credit against final income tax liability assessed on the basis of an income tax return. The 20% tax withheld is in full discharge in the hands of non-resident directors if (i) the gross directors' fees do not exceed EUR 100,000 and if (ii) they have no other Luxembourg source professional income.

However, said directors may opt to file an income tax return. In the scope of an individual income tax return, tax is assessed pursuant to progressive income tax rates. Whether a director should file an annual income tax return should be considered on a case-by-case basis.

Please note that it has been confirmed that VAT is to apply to the payment of Director's fees. For more information, please read our Flash News: *http://www.pwc.lu/en/vat/docs/pwc-vat-031016.pdf*

4 Dividend and interest income

Withholding tax of 15% applies to Luxembourg domestic dividends (this withholding tax is not a final discharge of tax). For final taxation, dividend income is subject to progressive income tax rates. A 50% tax exemption of the gross dividend can be obtained on dividend income paid by a fully taxable company resident in a European Union Member State or a State that has concluded a tax treaty with Luxembourg.

Interest paid or attributed to a Luxembourg resident individual by a paying agent located in Luxembourg is subject to a 20%* withholding tax, which represents a full discharge of the taxes.

Resident taxpayers receiving cross-border interest income can also apply for 20% flat rate taxation to the extent that the paying agent is located in another EU Member State, or EEA State subject to a specific request to be submitted to the tax authorities before 31 March 2017 for the 2016 tax year.

Interest payments which do not fall within the scope of the 20% taxation (e.g. income received from a UCIT, interest paid by certain foreign paying agents, etc.) continue to be subject to taxation according to progressive income tax rates via an income tax return. A lump-sum deduction of EUR 1,500 (doubled for taxpayers taxable jointly) applies to total dividend and interest income (subject to progressive taxation) received during the tax year.

5 Capital gains

Capital gains on immovable properties

Capital gains on the sale of the taxpayer's main residence are tax-exempt. Capital gains on other real estate property:

- Are subject to progressive income tax rates if the disposal takes place within two years of acquisition.
- Are subject to a reduced tax rate if the disposal takes place more than two years after acquisition. The reduced rate is effectively half the individual's marginal tax rate. The tax rate can be reduced further i.e. to a quarter of the marginal tax rate if the gain is realised between 1 July 2016 and 31 December 2017 *. A tax deduction of up to EUR 50,000 (doubled for married taxpayers and civil partners filing jointly) valid every ten years may be claimed on the capital gain. In addition, a deduction up to EUR 75.000 for inherited property (direct line) may also apply.
- Under specific conditions, taxation of capital gains from the disposal of property can be deferred if it's used to fund the acquisition of a new property, located in Luxembourg, which the owner intends to rent out.

Capital gains on movable properties

	Income tax regime
Short-term capital gains: Shares are disposed of within six months of the acquisition date	*Taxation based on Luxembourg progressive income tax rates if total short-term gains for the year amounts to at least EUR 500*
Long-term capital gains: Shares are disposed of more than six months after the acquisition date	*Capital gain is tax-exempt if the taxpayer does not hold a major shareholding (10%)* *Capital gain is taxed at a reduced tax rate (max. half marginal tax rate) if the taxpayer holds a major shareholding (10% or more)* *A tax deduction of up to EUR 50,000 valid every ten years may be claimed on the capital gain (doubled for married taxpayers and civil partners filing jointly)*

6 Real estate income

Residence occupied by the owner (main residence)

As from 2017, the deemed rental value of a principal private residence is abolished.

Mortgage interest linked to the property (ceilings applicable) are tax deductible, as long as the property represents the taxpayer's main residence.

Ceilings applicable to the mortgage interest*:

- EUR 2,000 for the 1st year of occupation, and the 5 following years;
- EUR 1.500 for the following 5 years;
- EUR 1,000 for the following years.

These ceilings are multiplied by the number of individuals forming part of the taxpayer's household.

Residence rented out

The net rental income will be determined by deducting rental expenses from the gross rental income.

The gross rental income is determined by aggregating any payment made by the tenant to the owner of the property.

Rental income related expenses:

- Debit interest on a mortgage loan;
- Insurance (fire, civil liability, etc.);
- Property tax;
- Repair and maintenance costs, etc;
- Depreciation of construction (amortisation rate from 2% to 6% depending on the year of construction of the building) and further investments - except land (lump sum calculation of 20% of the acquisition price, if price of land at acquisition is unknown).

Alternatively, if the taxpayer does not have any actual expenses, he may apply the lump-sum deduction.

No deductions apply to a secondary residence located in Luxembourg or abroad.

7 Deductible items

Special expenses

Mandatory state social security contributions

Mandatory state social security contributions paid to the Luxembourg social security system and contributions paid to a foreign state scheme in accordance to a social security treaty are tax deductible.

Gifts

Gifts made to a Luxembourg or EU qualifying institution are tax deductible if the individual's qualifying donations exceed at least EUR 120 p.a.. Tax deductibility is limited to EUR 1,000,000 and 20% of total net income.

Employer contributions to an occupational pension scheme

The employee's contributions to a qualifying occupational pension scheme set up by the employer are tax deductible up to EUR 1,200 (yearly cap).

Lump sum

A yearly lump sum deduction of EUR 480 is available for employees (deduction is doubled for taxpayers filing jointly, as long as they both earn employment income - See also questions & answers on p.13).

Extraordinary charges

Extraordinary charges are tax deductible only if they exceed the "normal charge" of the household as determined by the Luxembourg tax law. The costs incurred should be unpredictable, unforeseeable and reduce the ability to pay income tax during the year (i.e. medical expenses not reimbursed by the CNS or a mutual fund, legal fees, etc.).

In addition, the costs for child care, for household employees or home assistance for disabled individuals are also deductible.

Two methods of calculation:

- normal charge method (the deduction will depend on your family situation and on your level of taxable income);
- lump sum deduction to a cap of EUR 5,400* on a yearly basis (only applicable for: child care, for household employees or home assistance for disabled individuals).

Environment sustainable transport

There has been an introduction of a new tax deduction for environmentally friendly means of transport if purchased from 1 January 2017. It amounts to EUR 5,000 for the purchase of an electric or hydrogen car, and to EUR 300 for the purchase of an electric bicycle or a regular bicycle for adults.

Tax credit for employees

Employees are entitled to a tax credit on a yearly basis ranging from EUR 0 to EUR 600* depending on their level of income (applicable to each married spouse and civil partner earning a taxable salaried income).

Questions & answers

What type of private expenses can I claim?

The lump sum of EUR 480 for employees can be replaced by actual expenses:

	Yearly ceiling
Alimony paid to a divorced spouse	EUR 24,000
Interest payments and/or insurance premiums[1] (life, death, disability, accident, sickness, civil liability)	EUR 672*
Contributions to home ownership savings plan[2]	EUR 672 / EUR 1,344*
Private old-age pension schemes[3]	EUR 3,200*
Single death insurance premium related to a mortgage loan[4]	EUR 6,000

[1] Increased by EUR 672 for jointly taxable taxpayers and each dependent child.
[2] Up to 40 years old, it is EUR 1,344. Increased for jointly taxable taxpayers and each dependent child.
[3] Amount per taxpayer subscribing to a private old-age pension scheme.
[4] The deduction can be increased based on the individual's personal situation (age, number of dependent children, etc.).

Are there any extra deductions for married taxpayers?

Yes. Married taxpayers and civil partners are entitled to a EUR 4,500 tax deduction on a yearly basis if they're filing jointly and they both earn professional income taxable in Luxembourg.

What about deductions for children?

Single parents with dependent children may claim a yearly tax credit ranging from EUR 750 to EUR 1,500 depending on their level of income. Moreover, education and maintenance costs for children who do not qualify as dependent can be deducted up to EUR 4,020* per year and per child.

Social security

Regular social security contributions

Regular Luxembourg social security contributions consist of an employer and an employee portion. Both are computed on a gross remuneration capped at EUR 9,992.93 per month, on 1 January 2017 (EUR 119,915.16 cap per year[1]). The following rates are applicable for 2017.

	Employee's portion	Employer's portion
Health		
• Periodic remuneration	3,05%	3,05%
• Non-periodic remuneration (e.g. bonus)	2,80%	2,80%
Sickness[2] (Mutuality of employers)	/	0,51% - 2,92%[2]
Pension	8%	8%
Accident	/	1%
Health at work	/	0,10% - 0,11%[3]
Total (periodic remuneration)	11,05%	12,66% - 15,08%

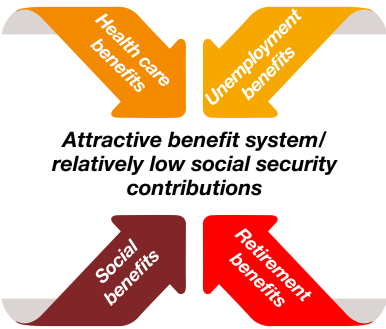
(1) EUR 115,377.60 in 2016.
(2) Depends on absenteeism rate.
(3) Or EUR 45/year if the employer is registered to the ASTF.

Mandatory social security contributions borne by the employee are deductible for Luxembourg income tax purposes.

Dependency contribution

In addition to the above-mentioned regular social security contributions, employees are subject to a monthly contribution ("contribution dépendance") based on the gross remuneration minus EUR 5,995.80 per year for 2017*. This contribution amounts to 1.4%. Contrary to regular social security contributions, the dependency contribution's basis is not capped and not tax deductible. The dependency contribution is also due by Luxembourg residents on their patrimonial income if they benefit from Luxembourg health insurance.

Social security benefits



Health care benefits

- *Sickness coverage;*
- *Work related injuries and occupational sickness insurance.*

Unemployment benefits

- *Maximum unemployment benefit is equal to 80% of previous gross salary (capped) and applies to Luxembourg residents only.*

Retirement benefits

- *Minimum old-age pension is equal to EUR 1,771.75 per month and the maximum amount to EUR 8,202.55 for a full career in Luxembourg.*

Social benefits

- *Family allowance: EUR 6,360 net annually for two children under 5 years;*
- *Parental leave: from EUR 1,998.59 to EUR 3,330.98 gross per month*, depending on the monthly income*
- *Maternity benefits;*
- *Dependency insurance.*

9 New tax measures in 2018

The 2017 tax reform has introduced new tax measures for individual taxation, which will be effective as of 2018.

Option to file jointly or individually

As from tax year 2018, resident and non-resident jointly taxable taxpayers will have the possibility either to continue to file a joint tax return, or to opt for separate individual taxation.

Under this regime, couples opting for separate taxation will be taxed in tax Class 1. They will be able to apply for either of two regimes.

- A full individualisation ("individualisation pure"), where each item of income is allocated individually to each partner based on the applicable matrimonial regime, and where deductions (e.g. for insurance premiums, interest payments, dependent children), and the potential increase in ceilings for married couples with dependent children, are split equally between the spouses;
- An individualisation with reallocation of income ("individualisation avec réallocation des revenus"), where the total adjusted taxable income of the household (determined based on the aggregate net income and applicable tax deductions) will by default be allocated equally between the partners, irrespective of the level of their individual income. The partners can also request a different allocation of the total adjusted taxable income. In addition, the law extends this individualisation method to civil partners.

Under payroll withholding, taxpayers will each be taxed under tax Class 1 if they opt for the full individualisation, while taxpayers who will choose individualisation with reallocation of income will be taxed at their global tax rate.

New tax treatment for married non-resident taxpayers

Married non-resident taxpayers will be regarded as being in tax Class 1 by default, and can no longer be allocated as tax Class 1a or Class 2.

As an exception to this, married non-resident taxpayers may retain the benefit of tax Class 2 (i.e. as for married resident taxpayers), provided that some specific conditions are met (90% of the worldwide income of either spouse needs to be taxable in Luxembourg), and that they report their non-Luxembourg sourced income (for example the spouse's professional income). Such non-Luxembourg sourced income will be exempt for Luxembourg tax purposes but taken into account for the determination of the applicable tax rate on the Luxembourg sourced income ("exemption with progression").

In practice, married non-resident taxpayers where one spouse works outside of Luxembourg will be adversely impacted by this provision, as it will be likely to increase significantly the Luxembourg tax burden.

Why PwC Luxembourg

We offer a full range of personal income tax related services to help you comply with and make the most out of your tax obligations. Our services include:

- Luxembourg and international personal tax consulting;
- Remuneration structuring for international employees (salary splits, international employment companies, etc.);
- Tax structuring of remuneration packages (e.g. tax-efficient individual investment in Luxembourg real estate, capital gains and losses, use of personal management companies and related opportunities, tax optimisation in case of redundancy, etc.);
- Personal tax compliance services – personal income tax returns;
- Social security and pension advice (Luxembourg and international aspects);
- Cross-border taxation and social security aspects.

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