



New tax Circulars following the 2017 Tax Reform

Further to the 2017 Tax Reform, several tax circulars have been expected to clarify the new law's provisions, especially in respect of individual income tax and the taxation of married non-resident taxpayers as from 1 January 2018.

Unfortunately, these clarifications were not part of the tax circulars issued on 7 August 2017.

The four new tax circulars released this week focus on modifying the former tax circulars: they address changes that the 2017 Tax Reform introduced, as well as those from the family allowance reform enacted by the law of 23 July 2016, which entered into force on 1 August 2016. (Read more about that [here](#)).

You will find below a summary of the main information included in these new tax circulars:

Tax Circular of the Head of the Tax Authorities LITL n° 122/1 of 7 August 2017

The Luxembourg tax authorities have issued a new tax circular as a process update of the tax moderations application further to the 2016 family allowance reform and the 2017 Tax Reform.

Previously, tax moderation could be paid in the form of a child boni ("boni pour enfant") or as a tax credit.

However, from 1 August 2016, no child boni can be granted anymore, and the tax moderation is deemed to be part of the family allowance, the scholarship for higher education or the volunteer's help. This tax moderation is considered to be granted to the taxpayer's household where the child lives.

If the tax moderation is not granted in the form of a family allowance, scholarship for higher education or volunteer's help, the taxpayer can still apply for a tax credit for bearing children upon filing of a Luxembourg individual income tax return or annual tax decompote.

For children born after 31 July 2016, the parent (if not married or not under a legal partnership) who benefited from the first monthly payment of the family allowances was granted tax class 1a for 2016.

As from 2017, the parent who benefits from the first monthly payment of the family allowances for the oldest common child is granted tax class 1a and the tax moderation.

It is interesting to note that the parent getting the tax class and the moderation still has the option to renounce and designate the other parent as the ultimate beneficiary. This is a one-year option that can be renewed annually. Further to this decision, the respective tax consequences will follow (i.e. tax class 1A, ceilings for tax deductions, etc.)

Tax Circular of the Head of the Tax Authorities LITL n° 123/1 of 7 August 2017

Another new tax circular aims to clarify the determination of the number of tax moderations for children in the household.

This tax circular is mostly updated by the above mentioned changes referred in the tax circular LITL n°122/1 of 7 August 2017, and, similarly to the former one, provides clarification on who can benefit from the tax moderation, and in which conditions.

It also reiterates that, further to the 2016 family allowances reform, disabled children enrolled in a specialised institute may not benefit from family allowances until their 25th birthday, while, before this, no limit was applicable.

These family allowances may be cancelled in cases where a disabled minor already receives benefits for severely disabled individuals.

Tax Circular of the Head of the Tax Authorities LITL n° 127bis/2 of 7 August 2017

The Luxembourg tax authorities have issued a new tax circular regarding the education allowance for children who are not part of the taxpayer's household.

This new tax circular confirms that the maximum amount of education allowance has been increased to €4,020 yearly per child as from 1 January 2017. The allowance can be refused if both the parents and their common child(-ren) share the same household.

Tax Circular of the Head of the Tax Authorities LITL n° 154ter/1 of 7 August 2017

This new tax circular aims to clarify the computation of the tax credit for single parent.

It updates the tax circular of 7 April 2017 on the same topic, by increasing the single parent tax credit for low-income earners and increasing the threshold from which the single parent tax credit can be reduced.

The tax circular finally reiterates that, as from the tax year 2017, the single parent tax credit is no longer applicable in cases where and parents and their common children share the same household.

Conclusion:

These four new tax circulars bring slight clarifications in the aftermath of both the 2016 family allowance and 2017 Tax Reform, and basically confirm the spirit of previous tax circulars, with a few exceptions.

Other hot news: on 10 August 2017, the Luxembourg tax authorities released a newsletter on specific wage tax requirements.

As such, a new tax form is available to Luxembourg employers or equivalent, and to Luxembourg non-resident employees who do not fall under Luxembourg social security. The form can be used to apply for a tax file number, enabling the employer to correctly process the Luxembourg wage tax and for local tax authorities to carry out the mandatory automatic exchange of salaried information.

Contact us

For additional information with respect to this Alert, please contact the following:

Frederic Scholtus,
Associate Partner
frederic.scholtus@kpmg.lu
+352 22 51 51 5333

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