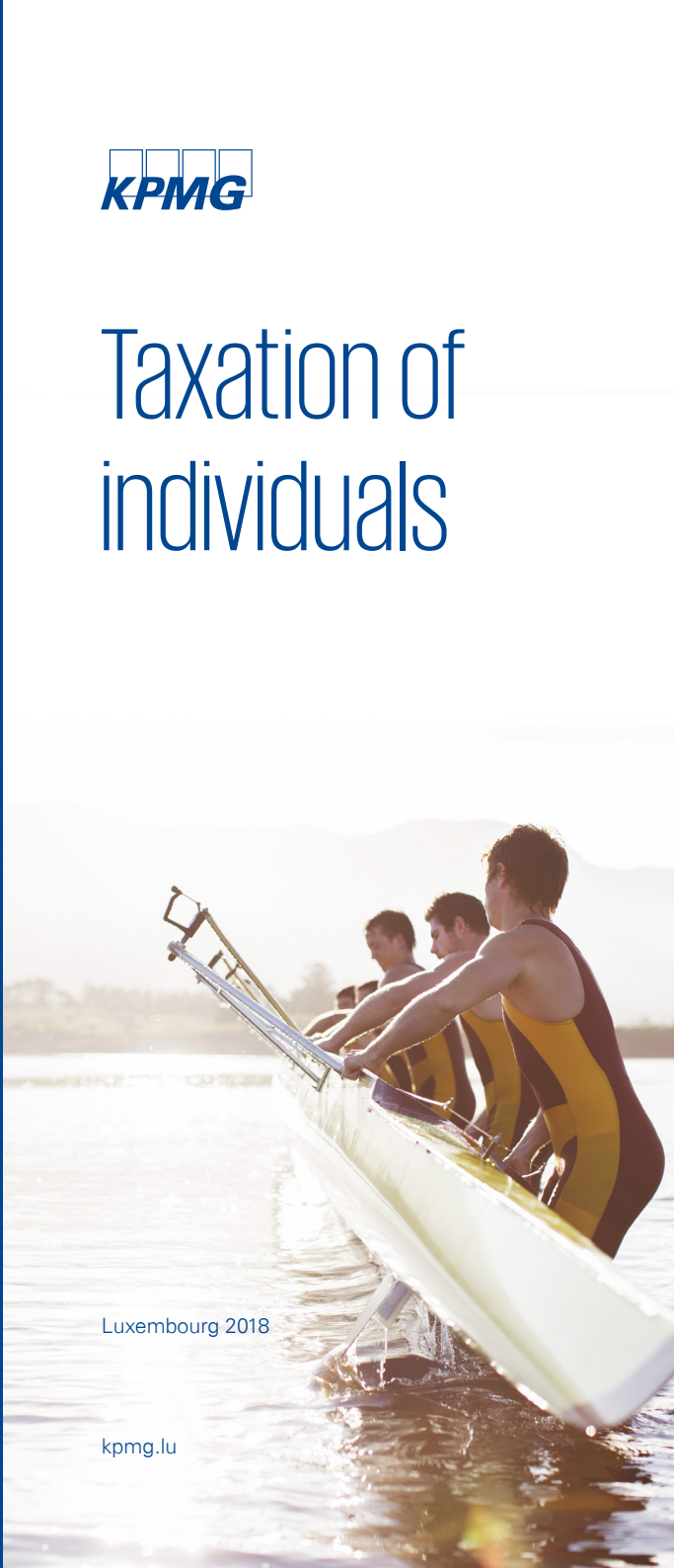




# Taxation of individuals

Luxembourg 2018

[kpmg.lu](http://kpmg.lu)



# Tax year

The tax year corresponds to the calendar year.

# Tax rates

Progressive tax rates ranging from 0% to 45.78% apply to taxable income **not exceeding** €200,004 (€400,008 for couples taxed jointly). The excess is subject to 45.78%.

The calculation of Luxembourg income taxes depends on the taxable income and the individual's family status, i.e. the tax class.

Get an estimate of your Luxembourg taxes using our free tax calculator ([www.kpmgtaxcalculator.lu](http://www.kpmgtaxcalculator.lu)).



## KPMG Luxembourg Tax Calculator

Visit  
[kpmgtaxcalculator.lu](http://kpmgtaxcalculator.lu)



# Tax classes - residents

	Without children	With dependent children	Aged at least 65 years on 1 January 2018
<b>Single</b>	1	1a	1a
<b>Married * / Partners</b>	1	1/1a	1
<b>Married/Partners - joint taxation **</b>	2	2	2
<b>Separated / Divorced***</b>	2 / 1	2 / 1a	2 / 1a
<b>Widow(er)***</b>	2 / 1a	2 / 1a	2 / 1a

\* Joint application on time for separate tax filing

\*\* Married taxpayers file jointly: mandatory joint taxation  
Taxpayers who have entered into a registered partnership agreement and who shared a common residence during the whole tax year **can elect to be taxed jointly**

\*\*\* Residents who separated (legal separation), divorced or were widowed during a specific tax year are **granted tax class 2 for the next 3 tax years**

# Tax classes - non-residents

	Without children	With dependent children	Aged at least 65 years on 1 January 2018
<b>Single</b>	1	1a	1a
<b>Married * / Partners</b>	1	1	1
<b>Married/Partners filing jointly**</b>	2	2	2
<b>Separated / Divorced***</b>	2 / 1	2 / 1a	2 / 1a
<b>Widow(er)***</b>	2 / 1a	2 / 1a	2 / 1a

\* Tax class 1a maintained for partners with dependent children or aged at least 65 years

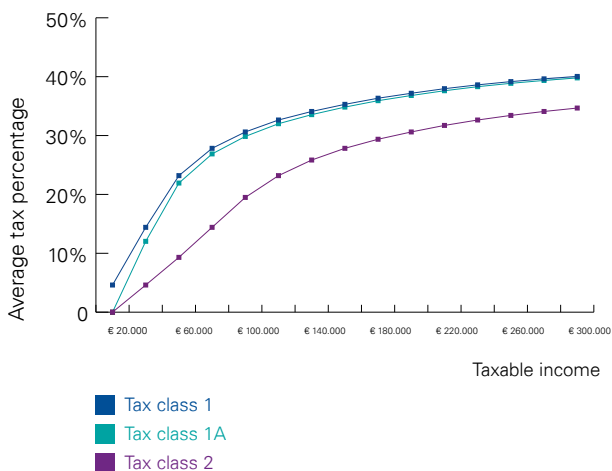
\*\* Joint request on time + conditions to be met  
Legal partners have to apply for joint taxation via their tax return

Non-residents married couples and registered partners could opt to be taxed individually under the same conditions as resident married couples

\*\*\* Non-residents who separated (legal separation), divorced or were widowed during a specific tax year are granted tax class 2 for the next 3 tax years

## Tax schedule

The average tax rates according to taxable income and tax class are as follows:



# Liability for income tax

Individual liability for Luxembourg tax is determined by residence status. Luxembourg tax residents are taxable on their worldwide income in Luxembourg (with treaty reliefs where applicable), while Luxembourg non-residents are taxable on their Luxembourg-sourced income only.

An individual qualifies as a tax resident in Luxembourg provided that his or her domicile or usual abode is in Luxembourg.

- A domicile is defined as a permanent home that the individual currently uses and intends to maintain.
- A usual abode is deemed to exist if the individual remains in Luxembourg for more than six consecutive months (short periods of absence are disregarded). Tax residence applies as from the first day of the individual's presence in Luxembourg.

## Deadline for tax filing

The official deadline to file the tax return is 31 March following the tax year-end.

## Double taxation treaties

In addition to Luxembourg's domestic arrangements that provide relief from international double taxation, Luxembourg has entered into double taxation treaties with 81 countries (as of January 2018) to prevent double taxation and allow cooperation between Luxembourg and overseas tax authorities in enforcing their respective tax laws.

## Categories of income

- Income from commercial activities
- Income from independent activities (including directors' fees)
- Income from agricultural/forestry activities
- Employment income
- Pension income
- Investment (dividend and interest) income
- Rental and royalty income
- Miscellaneous income (including capital gains)

# Income from independent activities

For the first three categories, i.e. income from commercial activities, income from independent activities, and income from agricultural/forestry activities, the taxable basis is usually computed according to the rules applicable to companies, i.e. profits and charges are accounted for on an accrual basis. A simplified method of computation, based on income and expenses on a cash basis, may be used in certain cases.

Directors' fees paid by a company in Luxembourg are subject to a 20% withholding tax calculated on the gross amount (or 25% of the net amount). For non-resident board members, this withholding tax is the final tax, provided the annual amount of directors' fees  $\leq$  €100,000 and provided no other professional income is generated in Luxembourg.

The actual amount of income-related expenses is tax deductible. Alternatively, a lump-sum deduction of up to €3,400 per year applies.

Directors' fees are, however, not tax deductible from a corporate tax perspective. Directors are subject to an accounting obligation to the extent that their annual gross turnover exceeds €100,000. VAT may be due on directors' fees as well.

## Employment income

- Income-related expenses (e.g. training sessions, expenses, etc.): unless the taxpayer can prove he/she has incurred higher expenses, a lump-sum deduction of €540\* per year applies.
- Commuting expenses are fixed by law, with a maximum of €2,574 per year.
- Professional trips with a private car can be reimbursed tax free up to €0.30 per kilometre.

\* Doubled if jointly taxed and both in receipt of an employment income.

# Benefits in kind

Benefit	Lump sum valuation / exemptions		
<b>Company car</b>	<p>Monthly fringe benefit: varies from 0.5% to 1.8% of the actual acquisition cost of the new car (all options and VAT included after discount, if any) depending on the CO<sub>2</sub> class of the vehicle as from 1 January 2017; ongoing contracts prior to 1 January 2017 remain valued at 1.5%.</p> <p>NB: no taxable benefit occurs in cases where an e-cycle is made available to an employee.</p>		
CO <sub>2</sub> emission	Petrol engine (single or hybrid) or liquefied petroleum gas (LPG)	Diesel (single or hybrid)	100% electric or hydrogen
g/km			<b>0.5%</b>
>0 – 50 g/km	<b>0.8%</b>	<b>1.0%</b>	
>50 – 110 g/km	<b>1.0%</b>	<b>1.2%</b>	
>110 – 150 g/km	<b>1.3%</b>	<b>1.5%</b>	
>150 g/km	<b>1.7%</b>	<b>1.8%</b>	
<b>Free accommodation</b>	<p>Monthly fringe benefit: <b>75%</b> of the rent paid by the employer if the tenancy agreement was directly concluded between the employer and the landlord (<b>82.5%</b> if the accommodation is furnished).</p>		
<b>Interest subsidy / interest-free or -reduced loans</b>	<p>Interest savings are not taxable within the following limits:</p> <p>Mortgages on the taxpayer's private home: <b>€3,000</b>, resp. <b>€6,000</b>, per annum depending on the taxpayer's situation. Other loans: <b>€500</b>, resp. <b>€1,000</b>, per annum depending on the taxpayer's situation.</p> <p>Interest savings are also exempt from social security contributions.</p>		
<b>Occupational pension scheme</b>	<p>The employer's contributions to a qualifying occupational scheme are subject to an aggregated rate of <b>20.90%</b> to be borne by the employer. Pension benefits received are tax exempt in Luxembourg under certain conditions.</p>		
<b>Luncheon vouchers</b>	<p>Maximum exempt amount: <b>€8.00</b> per voucher provided that the employee makes a contribution of <b>€2.80</b> per voucher.</p>		

# Specific tax regime for impatriate workers

Qualifying international employees, recruited or assigned to work in Luxembourg, can benefit from a special tax regime that provides tax exemptions for typical benefits that are usually granted to expats, including moving expenses, accommodations costs, school fees, cost of living allowance, home leave, and tax equalisation.

## Conditions - employees

General conditions	Additional conditions	
	For secondments*	For recruitments**
<b>Must become tax resident in Luxembourg (based on domestic tax law).</b>	Must have at least 5 years of seniority in the international group/sector concerned	Must have acquired deep specialisation in a sector or profession characterised by difficulties of recruitment in Luxembourg.
<b>For the previous 5 years: must not have been Luxembourg tax resident, have lived fewer than 150 km from the Luxembourg border, or have been subject to Luxembourg income tax on professional income.</b>	Employment relationship must exist between sending company and employee.	
<b>Must exercise his/her employment as a principal activity and pass on knowledge to local personnel.</b>	The secondees must be granted the right to return to the home company.	
<b>Earn an annual base salary of at least €50,000.</b>	Contractual arrangement must exist between the home and host companies with respect to secondment.	
<b>Not replacing a non-impatriate employee</b>		

\* An employee who normally works abroad and is seconded from a company located outside Luxembourg that belongs to an international group to temporarily exercise an employment activity in a Luxembourg company belonging to the same international group.

\*\* An employee directly recruited abroad by a Luxembourg company or a company located in the European Economic Area to perform an employment activity in the company.

## Conditions - employers

- If the company has been established in Luxembourg for < 10 years: must employ or commit to employing in the medium term at least 20 full-time employees in Luxembourg.
- If the company has been established in Luxembourg for  $\geq 10$  years: the maximum number of expats authorised is  $\leq 30\%$  of the total number of full-time employees.

## Benefits

Expenses borne by employer (subject to conditions)	Tax exemptions (subject to conditions)
Relocation costs (at start/end of assignment)	100% tax exempt
Recurring assignment costs: <ul style="list-style-type: none"><li>- rent/utilities</li><li>- home leave</li><li>- tax equalisation</li></ul>	Tax exemption of 30% of fixed annual salary, up to €50,000 (single) / €80,000 (with spouse/partner)
School fees	100% tax exempt
Cost of living allowance	Tax exemption of 8% of fixed monthly salary, up to €1,500/month (single) or 16% of base salary up to €3,000/month (with spouse/partner who does not work)

These exemptions apply for the year of arrival, plus the following five years while the employee is working in Luxembourg.

## Procedure

The exemption is applied via monthly payroll. Following the end of the relevant tax year (by 31 January at the latest), the employer is required to provide the tax authorities with a list of employees benefiting from this tax regime. If the non-resident employer is not legally required to withhold wage tax in Luxembourg, and does not do it on a voluntary basis, the employee must file a Luxembourg income tax return in order to benefit from this regime.



# Pension income

- 50% of life annuities is tax exempt.
- Lump-sum payments in lieu of pension may be completely tax free or taxable at 50% of the average tax rate, depending on the nature of the premiums paid.
- Expenses relating to pension income are tax deductible via a minimum lump-sum deduction of €300\* per year.
- Pensions paid out to orphans (i.e. legitimate[-d] children and assimilated children) further to the death of one of the parents are fully tax exempt.

\* Doubled if jointly taxed and both in receipt of a pension income.

# Investment income

## Interest: specific taxation

- For interest paid by resident paying agents or paying agents located in Luxembourg to resident individuals: a **20%** withholding tax is levied on interest on bank deposits, government bonds, and profit-sharing bonds (as long as the interest falls within the Relibi law). This withholding tax is the final tax and the amount of interest is not reportable on the individual's annual tax return.
- For interest (falling in Relibi law) paid or credited by foreign paying agents located inside the EU or in the EEA: the Luxembourg resident taxpayer may opt for the **20%** withholding tax via a specific tax form. The deadline is 31 March following the tax year-end. This withholding tax is final and the interest is not reportable on the individual's annual tax return. If the option is not exercised, the individual has to report the interest income in his/her annual tax return.
- The tax is only due if the annual amount of interest exceeds **€250** per individual and per paying agent.

## Dividend

- A **50%** tax exemption applies to dividends received from an EU resident parent-subsidiary company or a company resident in a State with which Luxembourg has concluded a double taxation treaty provided that the company is subject to a tax comparable to the Luxembourg corporate income tax.
- Investment income (both dividends and interest income excluded from the 20% final withholding tax) is tax free up to **€1,500** per year (**€3,000** for jointly taxed couples).

# Rental income

Rental income is taxed in the country where the building is located. In cases where the building is located in a double taxation treaty country, Luxembourg provides for an exemption. For Luxembourg residents, foreign rental income is however taken into account for the determination of the global tax rate applicable to the taxable Luxembourg source income. For real estate located in a non-double-tax-treaty country, Luxembourg would tax the rental income and grant a tax credit against the taxes paid in the other country.

A rented-out property's expenses (under certain conditions) can be offset against the rental income. In addition, the depreciation on the purchase price of the building might apply:

- 6% for properties built less than 6 years ago;
- 2% for properties built between 6 and 60 years ago;
- 3% for properties built more than 60 years ago.

In order to expand the supply of affordable housing, net rental income derived from approved bodies (covered by the modified law of 25 February 1979 concerning the housing support) can benefit from a 50% exemption.

## Main residence

While construction is in progress	Mortgage interest (without limit) and other financial expenses are tax deductible.
Construction is finished - Owner does not live in house	Mortgage interest (without limit), depreciation (incl. mortgage-related notary fees), and other financial expenses are tax deductible.
Construction is finished - Owner lives in house	Only mortgage interests are deductible (up to certain ceilings): - <b>€2,000*</b> for the year of occupation and the five following years - <b>€1,500*</b> for the five subsequent years - <b>€1,000*</b> for the following years

\* Increased by the same amount for the spouse/partner and each child living in the taxpayer's household.

# Capital gains

## Capital gains on investments

Additional conditions		Tax treatment
Securities held $\leq$ 6 months		Fully taxable
Securities held $>$ 6 months	Shareholding $\leq$ 10%	Tax exempt
	Shareholding $>$ 10% *	$\frac{1}{2}$ global tax rate
First €50,000 of long-term taxable gains (€100,000 for jointly taxed couples) in an 11-year period are tax exempt.		

- \* A shareholding is significant when the transferor has owned, directly or indirectly, alone or together with his/her spouse/legal partner and minor children, more than 10% of the company's capital at any point in time during the 5 years preceding the sale.

## Capital gains on sale of real estate

Capital gain on the sale of...	Tax treatment
Real estate held $\leq$ 2 years	Fully taxable
Real estate held $>$ 2 years	$\frac{1}{2}$ global tax rate. Special regime: $\frac{1}{4}$ global tax from 1 July 2016 to 31 December 2018.
First €50,000 of long-term taxable gains (€100,000 for jointly taxed couples) in an 11-year period are tax exempt.	
An additional allowance of €75,000 is granted for capital gain on the sale of a property inherited in the direct line and which was the parents' main residence. Each spouse is entitled to this additional allowance in respect of his or her own parents.	

- Any capital gain on the sale of a taxpayer's principal residence is exempt.
- Capital gains on properties are exempt if sold to the Luxembourg State.

## Step-up system for individuals

- Latent capital gains on shares/convertible loans prior to an individual's transfer of residence to Luxembourg are not taxed in Luxembourg. This applies to taxpayers who hold a significant participation ( $>10\%$ ).

# Special expenses

Special expenses	Maximum deductions / year
Mandatory State social security contributions paid to the Luxembourg social security system (1 <sup>st</sup> pillar) and contributions paid to a foreign State scheme further to the application of a social security treaty are tax deductible.	Unlimited
Personal contributions to an occupational pension scheme (2 <sup>nd</sup> pillar)	€1,200
Donations to qualifying charitable institutions – minimum yearly aggregated contribution of €120	Whichever is lower, €1,000,000 or 20% of taxable income

For the following expenses, unless the taxpayer can prove he or she had higher expenses, a lump sum deduction of **€480** per year is granted to every salaried taxpayer (applicable also to non-residents receiving a professional income in Luxembourg):

Special expenses	Maximum deductions / year
Alimony paid to a former spouse	€24,000
Debit interest on consumer loans, credit cards, or debit bank accounts Premiums for life, death, accident, disability, sickness, or third party liability insurance	Overall ceiling: <b>€672*</b>
Single premium for death insurance linked to a mortgage loan on the taxpayer's principal residence	Increased ceiling: - <b>€6,000</b> for taxpayer - <b>€1,200</b> per child living in the taxpayer's household  Additional increase: Based on the age of taxpayer: 8% per year exceeding 30 years, limited to 160%.
Contributions to qualifying home saving and loan schemes (the corresponding credit interests are fully tax exempt)	€1,344* for individuals between 18 and 40 years old  €672* for other cases
Premiums for voluntary pension scheme (3 <sup>rd</sup> pillar) - applicable to each of the spouses/partners	€3,200 per year irrespective of the subscriber's age

\* Increased by the same amount for the spouse/legal partner and each child living in the taxpayer's household.

# Social security contributions

(as from 1 January 2018)

Coverage	Paid by employer	Paid by employee	Paid by self-employed
Sickness <sup>(1) (2)</sup>	2.8% or 3.05%	2.8% or 3.05%	5.6% or 6.10%
Pension <sup>(1)</sup>	8%	8%	16%
Mutual insurance <sup>(1) (3)</sup>	0.46%, 1.16%, 1.77%, or 2.95%	-	0.46%, 1.16%, 1.77%, or 2.95%
Accident <sup>(1)</sup>	0.9%	-	0.9%
Health at work <sup>(1)</sup>	0.11%	-	-
Dependence insurance <sup>(4)</sup>	-	1.4%	1.4%
Total	12.27% to 15.01%	12.20% to 12.45%	24.36% to 27.35%

- (1) Employer and employee social security contributions are capped, i.e. they apply up to a gross remuneration of €9,992.93 per month (€119,915.16 per year) at index 794.54.
- (2) 3.05% on periodic remuneration; 2.80% on non-periodic remunerations (13<sup>th</sup> month, bonus, gratifications) and benefits in kind.
- (3) Contribution rate depends on the financial absenteeism rate of the employees in the company and are on a voluntary basis for self-employed persons.
- (4) Dependence insurance is not capped and not tax deductible for Luxembourg income tax purposes.

## Tax credits

Tax credit for employees / self-employed persons / pensioners (applicable also to non-residents receiving a professional/pension income taxable in Luxembourg)

The tax credit for salaried individuals, pensioners, independent workers and taxpayers receiving a replacement income varies between **€300** and **€600** depending on the level of income of the taxpayer. For taxpayers with an annual income below **€936** or exceeding **€80,000**, the tax credit is abolished.

Tax credit for single parents (applicable also to non-residents, but subject to conditions)

The tax credit granted to single parents would increase to **€1,500** if the yearly adjusted taxable income is below **€35,000**, but remains at **€750** if the yearly income exceeds **€105,000**. The tax credit would only be reduced if the annual child alimonies exceed **€2,208**. This tax credit is available on a prorated basis (for each full taxation month) in cases where the taxpayer is not subject to the Luxembourg individual income tax during the full tax year concerned.

# Tax deductions

Education allowance for children who are not part of the taxpayer's household (applicable also to non-residents receiving a professional income taxable in Luxembourg)

**€4,020** per annum, not applicable if parents live at the same address

Extra-professional allowance for jointly taxed married couples where they both receive income from a salaried occupation or an independent occupation (applicable also to non-residents receiving more than 90% of their taxable worldwide (professional) income in Luxembourg)

**€4,500** per annum

Extraordinary charges are tax deductible provided that they exceed a percentage of the taxpayer's taxable income. The percentage applied varies according to the taxpayer's taxable income and his/her tax class. Alternatively, costs for child care, for household employees, and home assistance for the disabled are also deductible. The deduction is subject to a cap of **€5,400** on a yearly basis.

## Percentage of taxable income according to tax class (%)

Tax class	1	1a or 2 with at least one child bonus, and this bonus amounting to 50% of the total child bonus.					
Child(ren)		0	1	2	3	4	5
less than €10,000	2	0	1	2	3	4	5
€10,000 - €20,000	4	2	0	0	0	0	0
€20,000 - €30,000	6	4	2	0	0	0	0
€30,000 - €40,000	7	6	4	2	0	0	0
€40,000 - €50,000	8	7	5	3	1	0	0
€50,000 - €60,000	9	8	6	4	2	0	0
over €60,000	10	9	7	5	3	1	0

## Car/cycle tax relief

To support sustainable individual transportation, zero-emission vehicles purchased by a private individual would benefit from tax reliefs:

- **€5,000** for zero-emission vehicles
- **€300** for cycles (including cycles with pedalling assistance).
- **€2,500** for hybrid vehicles under 50g CO2 emission per km

## Tax credit for children

Children who are part of the household have a right to:

- family allowances (possibly until the age of 25 if the child attends a secondary school and takes classes totalling at least 24 hours per week), or
- a scholarship (in cases of «études supérieures», i.e.” bachelor/ university), or
- a volunteer’s allowance if they are part of a qualifying voluntary cooperative service.

If any of the above is not granted (e.g. because the children do not enter in any of the above category or because the taxpayer falls under a foreign social security system), a tax relief of **€922.50** (creditable up to the final income tax burden) per year per child can be applied for through the filing of a personal annual tax return.

## GMS services





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