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Luxembourg – Tax and Budget Laws Enacted, 2013 Social and Income Tax Rates

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In this *Flash International Executive Alert*, we highlight some recent developments in Luxembourg, including the enactment of both the Budget (bill 6500)¹ and the Tax Package (bill 6497)² for 2013 and the new social security and income tax parameters, and other tax matters.

Tax-Related Legislation Enacted

(For prior coverage of this legislation, see [Flash International Executive Alert 2012-201](#), 14 November 2012.)

Unemployment Surcharge

For *individual* taxpayers, the unemployment surcharge is increased from 4 percent to 7 percent for the income less than EUR 150,000 in tax class 1 and 1a (or EUR 300,000 for tax class 2). For taxable income exceeding EUR 150,000 in tax class 1 and 1a or EUR 300,000 in tax class 2, the rate will increase from 6 percent to 9 percent.³

For *corporations* liable to corporate income tax, the solidarity surcharge will rise from 5 to 7 percent. Accordingly, the aggregate 2013 tax rate applicable to corporations resident in the municipality of Luxembourg will increase from 28.80 percent to 29.22 percent (i.e., corporate income tax and the 7-percent surcharge and the 6.75-percent municipal business tax applicable to the municipality of Luxembourg).

Tax Grid for Individuals

The current income tax grid for individuals is complemented with a new bracket of 40 percent for taxable income exceeding EUR 100,000. Considering the amended tax grid for individuals, the marginal tax rate will rise to 43.60 percent (40% x 9%).

Taxation of Stock Options

The preparatory works of the bill n°6497 indicate that the current tax regime applicable to stock option plans is considerably amended as from 2013. The approved wording itself, however, does not provide for any measures in this respect.⁴

Special Expenses: Deduction for Debit Interest

The maximum annual deduction for debit interest on consumer loans is cut by 50 percent and is limited to EUR 336 (was EUR 672) per taxpayer (increased by the same amount for the spouse/partner as well as for each child living in the taxpayer's household).

Lump Sum Deduction for Travel/Commuting Expenses

The first four distance units (i.e., EUR 396 per year) of the lump sum deduction for travel expenses between a taxpayer's home and his/her place of work is abolished. Moreover the lump sum deduction is capped at EUR 2,574 (was EUR 2,970) which corresponds to 30 distance units.

Social Security Parameters as of 1 January 2013 ⁵			
Social Security Contributions:			
<u>Tax</u>	<u>Contribution Rate (%)</u>	<u>Income Ceiling</u>	<u>Comments</u>
<i>Employer (private employers):</i>			
health - on monthly cash payments	3.05%	EUR 9,370.94 per month	(index 756.27)
health - on benefits-in-kind, bonus, 13th month	2.8%	EUR 9,370.94 per month	(index 756.27)
retirement	8%	EUR 9,370.94 per month	(index 756.27)
health at work	0.11%	EUR 9,370.94 per month	(index 756.27)
mutual health care	0.42%, 1.33%, 1.83%, or 2.64%	EUR 9,370.94 per month	(index 756.27) Rate depends on the financial absenteeism rate of the employees of the company
accident insurance	1.10%	EUR 9,370.94 per month	(index 756.27)

(Continued on the following page.)

Social Security Parameters as of 1 January 2013			
<i>Employee (private employees):</i>			
health - on monthly cash payments	3.05%	EUR 9,370.94 per month	(index 756.27)
health - on benefits-in-kind, bonus, 13th	2.8%	EUR 9,370.94 per month	(index 756.27)
retirement	8%	EUR 9,370.94 per month	(index 756.27)
dependency insurance	1.4%	Uncapped	(index 756.27) The monthly contribution basis corresponds to the monthly gross salary less one-fourth (1/4) of the monthly social minimum salary (i.e., EUR 468.55). Not tax deductible.
TOTAL RATE	12.20% - 12.45%		
Annual ceiling liable to social security contributions as of 1 January 2013: EUR 112,451.28 (was EUR 108,089.16)			
Monthly ceiling liable to social security contributions as of 1 January 2013: EUR 9,370.94 (was EUR 9,007.43)			
Monthly social minimum salary as of 1 January 2013: EUR 1,874.19 (was EUR 1,801.49)			

(For coverage of the prior parameters, see [Flash International Executive Alert 2012-045](#), 22 February 2012.)

Income Tax and Unemployment Surcharge Parameters as of 1 January 2013

The income tax tables, plus the unemployment surcharge, for 2013 may be found in the table on the next page. (For coverage of last year's rates, see [Flash International Executive Alert 2012-045](#), 22 February 2012.)

Income Tax Rates – 2013⁶

Annual Taxable Income	Tax Rate
<u>EUR</u>	<u>%</u>
0	0%
11,265	8%
13,173	10%
15,081	12%
16,989	14%
18,897	16%
20,805	18%
22,713	20%
24,621	22%
26,529	24%
28,437	26%
30,345	28%
32,253	30%
34,161	32%
36,069	34%
37,977	36%
39,885	38%
41,793	39%
Over 100,000	40%

Shaded in pink represents changes over last year

Unemployment Surcharge:

computed on the income tax liability as a	7% - 9%* (was
contribution to the employment fund	4% - 6%)

* 9% for the part of taxable income exceeding EUR 150,000 (EUR 300,000 for couples jointly taxed)

Maximum Combined Rate for

Taxpayers:

42.8% - 43.6% (was 40.56% - 41.34%)

Withholding Tax Rates in Relation to Additional Tax Cards

The withholding lump-sum tax rates relating to the additional tax cards (a tax deduction document for each employee) are set as follows:

<u>Tax Class</u>	<u>Withholding Tax Rate</u>
1	33% (instead of 30%)
1a	21% (instead of 18%)
2	15% (instead of 12%)

Footnotes:

1 Loi du 21 décembre 2012, published in Mémorial A n°273, 28 décembre 2012, page: 4003.

2 Loi du 21 décembre 2012 published in Mémorial A n°270, 28 décembre 2012, page: 3830.

3 For an explanation of the tax classes, see the following KPMG publication:

<http://www.kpmg.com/LU/en/IssuesAndInsights/Articlespublications/Documents/Taxation-of-Individuals-2012.pdf> .

4 For a report on the new circular (LIR n° 104/2) on the taxation of stock option plans, which updates a 2002 circular on the matter, see [Flash International Executive Alert 2013-025](#), 1 February 2013.

5 See the Ministère du Travail et de l'Emploi Web page featuring the *Paramètres sociaux* at: http://www.mte.public.lu/legislation/parametres_sociaux/index.html. Or go to: http://www.mss.public.lu/publications/parametres_sociaux/index.html.

6 For more information on tax brackets (in French), visit the government Web site for the Administration des Contributions Directes at: <https://saturn.etat.lu/cobar/>.

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EUR 1 = USD 1.299
EUR 1 = GBP 0.87

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