



TAX

Taxation of individuals

Luxembourg 2015

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Tax year

The tax year corresponds to the calendar year.

Tax rates

Progressive tax rates ranging from 0% to 42.8% apply to taxable income not exceeding € 150,000 (€ 300,000 for couples taxed jointly). The rate of 43.6% applies to the portion of taxable income exceeding € 150,000 (€ 300,000 for couples taxed jointly).

For the tax year 2015, an additional temporary tax of 0.5% applies to the taxable basis reduced by an amount equivalent to 1 x the minimum monthly social wage for non-qualified workers, i.e. € 1,922.96 (index 775.17), or $\frac{3}{4}$ of the minimum monthly social wage, depending on the type of taxable income.

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

Tax classes

	Without children	With dependent children	Aged over 64 years on 1 st January 2015
Single	1	1a	1a
Married / Partner*	2	2	2
Separated/ Divorced**	2 / 1	2 / 1a	2 / 1a
Widow(er)**	2 / 1a	2 / 1a	2 / 1a

* Married taxpayers (including same sex married couples) file jointly (with specific conditions to be met for non-residents). Non-resident married couples with more than 50% of their combined professional income taxable in Luxembourg are granted tax class 2; otherwise, tax class 1a applies.

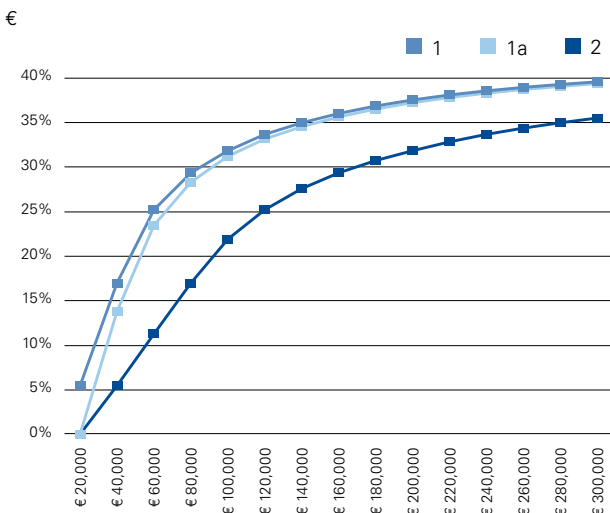
Resident taxpayers who have entered into a registered partnership agreement and who shared a common residence during the whole tax year can elect to be taxed jointly (with specific conditions to be met for non-residents).

** Residents and 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 grid

Average tax rates (excluding the 0.5% temporary tax for the budget balance) according to taxable income and tax class are as follows:

Taxable income



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 available treaty reliefs), while Luxembourg non-residents are taxable on their Luxembourg source 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 actually 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 75 countries (status in January 2015) 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 director's 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 3 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.

Director's 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 director's 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.

Director's fees are however not tax deductible from a corporate tax perspective.

Employment income

- Income-related expenses (e.g. trainings, expenses, etc.): unless the taxpayer can prove he has incurred higher expenses, a lump-sum deduction of € 540* applies.
- Commuting expenses are fixed by law, with a maximum of € 2,574.
- Professional travels with a private car can be reimbursed tax free up to € 0.40 per kilometer.

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

Benefits in kind

Benefit	Lump sum valuation / exemptions
Company car	Monthly fringe benefit: 1.5% of the actual acquisition cost of the new car (all options and VAT included and after discount, if any)
Free accommodation	Monthly fringe benefit: 75% of the rent paid by the employer if tenancy agreement directly concluded between the employer and the landlord (82.5% if the accommodation is furnished)
Interest subsidy / Interest-free or -reduced loan	The interest saving is not taxable within the following limits: Mortgages on the taxpayer's private home: € 3,000 , resp. € 6,000 per annum depending on the taxpayer's situation. Other loans: € 500 , resp. € 1,000 per annum depending on the taxpayer's situation. The interest saving is also exempted from social security contributions.
Occupational pension scheme	Employer's contributions to a qualifying occupational scheme are subject to an aggregated rate of 20.90% to be borne by the employer. Pension benefits received are tax exempt in Luxembourg under certain conditions.
Luncheon vouchers	Maximum exempt amount: € 5.60 per voucher provided that the employee makes a contribution of € 2.80 per voucher.

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 for tax exemptions for typical benefits that are usually granted to expats, including moving expenses, accommodations costs, school fees, cost of living allowance, home leave, tax equalization.

Conditions - Employees

General conditions	Additional conditions	
	In case of a secondment*	In case of a recruitment**
Be tax resident in Luxembourg (based on domestic tax law)	Have at least 5 years of seniority in the international group /sector concerned	Have acquired a deep specialization in a sector or profession characterized by difficulties of recruitment in Luxembourg
Not have been Luxembourg tax resident / lived at a distance lower than 150km from the Luxembourg border / subject to Luxembourg income tax on professional income for the 5 previous years	Employment relationship exists between sending company and employee	
Exercise his/her employment as a principal activity and pass on knowledge to local personnel	The secondee must be granted a right to return to the home company	
Earn an annual base salary of at least € 50,000	Contractual arrangement exists between the home and host companies with respect to secondment	
Not replace a non-impatriate employee		

* An employee who normally works abroad and is seconded from a company located outside Luxembourg that belongs to an international group to exercise temporarily 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 company established in Luxembourg for < 10 years: must employ or commit to employ in the medium term at least 20 full-time employees in Luxembourg;
- if company established in Luxembourg for ≥ 10 years: the maximum number of expats authorized is $\leq 30\%$ of total number of full-time employees.

Benefits

Expenses borne by employer (under conditions)	Tax exemptions (under conditions)
Relocation costs (at start/end of assignment)	100% tax exempt
Recurring assignment costs : - rent/utilities - home leave - tax equalization	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 – spouse/partner does not work)

These benefits apply for the length of the impatriation, with a maximum of 5 tax years following the impatriate's starting date in Luxembourg.

Procedure

At the beginning of each year (by 31 January at the latest), the employer is required to provide the Tax Authorities with a nominative 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.
- Deduction of expenses relating to pension income of minimum lump-sum deduction of € 300*.

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

Investment Income

Interest: specific taxation

- For interest paid by resident paying agents or paying agents located in Luxembourg to resident individuals: a **10%** 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 to be reported in the individual's annual tax;
- For interest (falling in Relibi law) paid or credited by foreign paying agents located inside the EU, EEA or other covered countries: the Luxembourg resident taxpayer may opt for the **10%** withholding tax via a specific tax form. Deadline is 31 March following the tax year-end. This withholding tax is final and the interest is not reported in the individual's annual tax return. If the option is not exercised, the individual has to report the interest income in his annual tax return.

Dividend income

- **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 10% final withholding tax) is tax free up to **€ 1,500 (€ 3,000 for jointly taxed couples)**.

Rental income

Rental income is taxed in the country where the building is located. In case 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 taxation treaty country, Luxembourg would tax and grant a tax credit against the taxes paid in the other country.

Properties rented out

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.

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) and depreciation (incl. mortgage-related notary fees) are tax deductible
Construction is finished - Owner lives in house	<p>A flat rate taxable basis is calculated as follows:</p> <ul style="list-style-type: none">- 4% of the unitary value of the dwelling up to € 3,800,- 6% of the excess. <p>Mortgage interests only may be deducted + up to certain ceilings:</p> <ul style="list-style-type: none">- € 1,500* for the year of occupation and the 5 following years,- € 1,125* for the five subsequent years,- € 750* 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

Capital gain on the sale of ...		Tax treatment
securities held ≤ 6 months		Fully taxable
securities held > 6 months	Shareholding ≤ 10%	Tax exempt
	Shareholding > 10% *	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 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	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	
An additional allowance of € 75,000 is granted for capital gain on the sale of a property inherited in the direct line, which was the parents' main residence. Each spouse is entitled to this additional allowance in respect of his or her own parents' property,	

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

Special expenses

Special expenses	Maximum deductions / year
Mandatory State social security contributions paid to the Luxembourg social security system (1 st 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 nd pillar)	€ 1,200
Donations to qualifying charitable institutions – minimum yearly aggregated contribution of € 120	The lowest of € 1,000,000 and 20% of taxable income

For the following expenses, unless the taxpayer can prove he had higher expenses, a lump sum deduction of **€ 480** is granted to every salaried taxpayer (applicable also to non-residents receiving a

professional income in Luxembourg):

Special expenses	Maximum deductions / year			
Debit interest on consumer loans, credit cards or debit bank accounts	€ 336*			
Alimony paid to a former spouse	€ 24,000			
Premiums for life, death, accident, disability, sickness or third party liability insurance	€ 672*			
Single premium for death insurance linked to a mortgage loan on the taxpayer's principal residence	Maximum increased by: € 6,000 increased by € 1,200 per child living in the taxpayer's household. For taxpayers over the age of 30, the allowable deduction is increased by 8% for each year over 30, with a ceiling of 160%.			
Contributions to qualifying home saving and loan schemes (the corresponding credit interests are fully tax exempt)	€ 672*			
Premiums for voluntary pension scheme (3 rd pillar) - applicable to each of the spouses/partners	age	annual deduction	age	annual deduction
	< 40 years	€ 1,500	48 years	€ 2,100
	40 years	€ 1,750	49 years	€ 2,100
	41 years	€ 1,750	50 years	€ 2,600
	42 years	€ 1,750	51 years	€ 2,600
	43 years	€ 1,750	52 years	€ 2,600
	44 years	€ 1,750	53 years	€ 2,600
	45 years	€ 2,100	54 years	€ 2,600
	46 years	€ 2,100	55 to 74 years	€ 3,200
	47 years	€ 2,100		

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

Social security contributions

(as from 1 January 2015)

Coverage	Paid by employer	Paid by employee	Paid by self-employed
Sickness *, **	2.8% or 3.05%	2.8% or 3.05%	6.10%
Pension *	8%	8%	16%
Mutual insurance *,***	0.51% to 3.04%	-	0.51% to 3.04%
Accident *	1.10%	-	1.10%
Health at work *	0.11%	-	-
Dependence insurance ****	-	1.4%	1.4%
Total	12.52% to 15.30%	12.20% to 12.45%	25.11% to 27.64%

* Employer and employee social security contributions are capped, i.e. they apply up to a gross remuneration of € 9,614.82 per month (€ 115,377.84 per year) at index 775.17.

** 3.05% on periodic remuneration; 2.80% on non-periodic remunerations (13th month, bonus, gratifications) and benefits in kind.

*** Contribution rate depends on the financial absenteeism rate of the employees in the company.

**** Dependence insurance is not capped and not tax deductible for Luxembourg income tax purposes.

Tax reliefs

Tax credit for employees/ self-employed (applicable also to non-residents receiving a professional income taxable in Luxembourg)	€ 300 per annum*
Tax credit for pensioners (applicable also to non-residents receiving a pension taxable in Luxembourg)	€ 300 per annum*
Tax credit for single parents (applicable also to non-residents, but under conditions)	€ 750 per annum

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

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)	€ 3,480							
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 50% of their taxable professional income in Luxembourg)	€ 4,500							
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 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 € 3,600 on a yearly basis.	Percentage of taxable income according to tax class (%)							
	Tax class	1	1a or 2					
	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

Child bonus

A separate child bonus of **€ 76.88** per month and per child is granted by the Luxembourg family fund for children (CNPF) for whom the taxpayer receives family allowances. For taxpayers falling under a foreign social security system, the child bonus can be requested as tax relief through the filing of a personal annual tax return or tax reclaim up to the amount of tax paid.



People Services - Global Mobility Services

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Global mobility

- Impatriate tax regime
- Cross-border taxes/ social security
- Individual income tax

International private clients

- Tax structuring of private wealth, corporate vehicles, financial vehicles
- Tax manual on investments



Design of tax efficient remuneration packages

- Warrant/equity plans
- Pension schemes
- Director's fees
- Carried interest, etc.

HR tax services

- Cafeteria remuneration scheme
- Payroll audit/ Due diligence
- Global employment contracts, etc.

Contact



Frédéric Scholtus

T: +352 22 51 51 5333

E: frederic.scholtus@kpmg.lu



Marisa Hosnar

T: +352 22 51 51 5425

E: marisa.hosnar@kpmg.lu



André Kayser

T: +352 22 51 51 5562

E: andre.kayser@kpmg.lu



Marie-Eve Garsou

T: +352 22 51 51 5588

E: marie-eve.garsou@kpmg.lu

KPMG Luxembourg, Société coopérative

**39, Avenue John F. Kennedy
L-1855 Luxembourg**

T: +352 22 51 51 1

F: +352 22 51 71

E: peopleservices@kpmg.lu

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