



Taxation of individuals

Luxembourg 2016

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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).

An additional temporary tax of 0.5% applies to the taxable basis reduced by an amount equivalent to 1x the minimum monthly social wage for non-qualified workers, i.e. €1,922.96 (index 775.17 at 1 January 2016), or ¾ 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 at least 65 years on 1 January 2016
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.

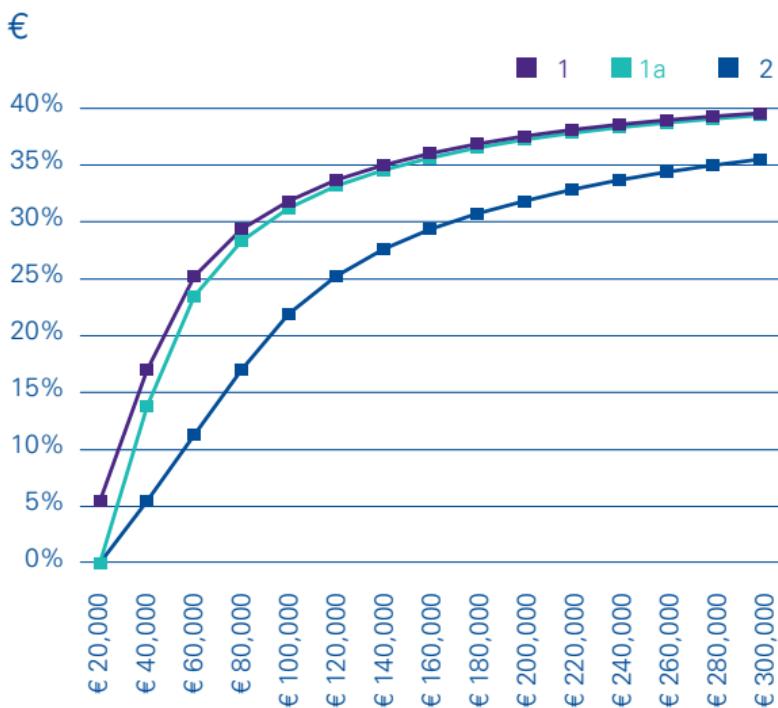
Resident taxpayers who have entered into a registered partnership agreement and who shared a common residence during the whole tax year can elect to be taxed jointly (with specific conditions to be met for non-residents).

** 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 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 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 (as of January 2016) 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.

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* per year applies.
- Commuting expenses are fixed by law, with a maximum of €2,574 per year.
- Professional travels with a private car can be reimbursed tax free up to €0.30 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 exempt from social security contributions.
Occupational pension scheme	The 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 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 equalization.

Conditions - Employees

General conditions	Additional conditions	
Become tax resident in Luxembourg (based on domestic tax law)	In case of a secondment* Have at least 5 years of seniority in the international group / sector concerned	In case of a recruitment**
Not have been Luxembourg tax resident / lived at a distance less than 150 km 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	Have acquired a deep specialization in a sector or profession characterized by difficulties of recruitment in Luxembourg
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 replacing 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 - Employees

- 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 (subject to conditions)	Tax exemptions (subject to 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 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.

* 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 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, EEA or other covered countries: the Luxembourg resident taxpayer may opt for the **10%** 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 or her 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** 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.

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 may only be deducted + up to certain ceilings:</p> <ul style="list-style-type: none"> - €1,500* for the year of occupation and the five 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

Additional conditions		Tax treatment
securities held \leq 6 months		Fully taxable
securities held $>$ 6 months	Shareholding $\leq 10\%$	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 or 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 ≤ 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,	

* Please note that the Luxembourg government has announced intention to reduce the tax rate on such gains to 1/4 of the global tax rate, for a limited period of time between 1 July 2016 and 31 December 2017. Draft legislation was published in early May 2016 and is expected to be enacted into law prior to 1 July 2016.

- 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%), and can be applied retroactively to 2015.

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 lower 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** per year 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	<p>Increased limit: - €6,000 for taxpayer - €1,200 per child living in the taxpayer's household</p> <p>Additional increase: Based on the age of taxpayer: 8% per year exceeding 30 years, limited to 160%.</p>																																								
Contributions to qualifying home saving and loan schemes (the corresponding credit interests are fully tax exempt)	€672*																																								
Premiums for voluntary pension scheme (3rd pillar) - applicable to each of the spouses/partners	<table border="1"> <thead> <tr> <th>age</th> <th>annual deduction</th> <th>age</th> <th>annual deduction</th> </tr> </thead> <tbody> <tr> <td>< 40 years</td> <td>€1,500</td> <td>48 years</td> <td>€2,100</td> </tr> <tr> <td>40 years</td> <td>€1,750</td> <td>49 years</td> <td>€2,100</td> </tr> <tr> <td>41 years</td> <td>€1,750</td> <td>50 years</td> <td>€2,600</td> </tr> <tr> <td>42 years</td> <td>€1,750</td> <td>51 years</td> <td>€2,600</td> </tr> <tr> <td>43 years</td> <td>€1,750</td> <td>52 years</td> <td>€2,600</td> </tr> <tr> <td>44 years</td> <td>€1,750</td> <td>53 years</td> <td>€2,600</td> </tr> <tr> <td>45 years</td> <td>€2,100</td> <td>54 years</td> <td>€2,600</td> </tr> <tr> <td>46 years</td> <td>€2,100</td> <td>55 years to 74 years</td> <td>€3,200</td> </tr> <tr> <td>47 years</td> <td>€2,100</td> <td></td> <td></td> </tr> </tbody> </table>	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 years to 74 years	€3,200	47 years	€2,100		
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* 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 2016)

Coverage	Paid by employer	Paid by employee	Paid by self-employed
Sickness ⁽¹⁾ , ⁽²⁾	2.8% or 3.05%	2.8% or 3.05%	6.10%
Pension ⁽¹⁾	8%	8%	16%
Mutual insurance ⁽¹⁾ , ⁽³⁾	0.46% to 2.93%	-	0.46% to 2.93%
Accident ⁽¹⁾	1.00%	-	1.00%
Health at work ⁽¹⁾	0.11%	-	-
Dependence insurance ⁽⁴⁾	-	1.4%	1.4%
Total	12.37% to 15.09%	12.20% to 12.45%	24.96% to 27.43%

- (1) 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.
- (2) 3.05% on periodic remuneration; 2.80% on non-periodic remunerations (13th 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 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 subject to 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 per annum																																																																													
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 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 or 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 €3,600 on a yearly basis.	<p>Percentage of taxable income according to tax class (%)</p> <table border="1"> <thead> <tr> <th rowspan="2">Tax class</th> <th rowspan="2">1</th> <th colspan="5">1a or 2</th> </tr> <tr> <th>0</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>Child(ren)</td> <td></td> <td>0</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>less than €10,000</td> <td>2</td> <td>0</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>€10,000 - €20,000</td> <td>4</td> <td>2</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>€20,000 - €30,000</td> <td>6</td> <td>4</td> <td>2</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>€30,000 - €40,000</td> <td>7</td> <td>6</td> <td>4</td> <td>2</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>€40,000 - €50,000</td> <td>8</td> <td>7</td> <td>5</td> <td>3</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>€50,000 - €60,000</td> <td>9</td> <td>8</td> <td>6</td> <td>4</td> <td>2</td> <td>0</td> <td>0</td> </tr> <tr> <td>over €60,000</td> <td>10</td> <td>9</td> <td>7</td> <td>5</td> <td>3</td> <td>1</td> <td>0</td> </tr> </tbody> </table>	Tax class	1	1a or 2					0	1	2	3	4	5	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
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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.



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