GMS Flash Alert

2024-175 | August 30, 2024

Luxembourg – Individuals Stand to Benefit under the New Budget Bill

Luxembourg's Finance Minister presented a new package of tax measures benefitting both individuals and companies on 17 July. Draft legislation (Bill 8414 or "Bill")[1] was filed with the Luxembourg Parliament on the same day. This Bill includes in total 16 new tax measures, which are intended to boost and strengthen the competitiveness of businesses and the country, attract new talents, and provide households with much-needed financial relief.

The Bill's measures are due to come into force as noted below.

As the Bill is still undergoing parliamentary review, measures may be subject to amendment.

In this newsletter, we focus on the main measures affecting individuals and their employers.

WHY THIS MATTERS

The measures introduced by the government, overall, should be welcomed by taxpayers, especially by those on modest-to-low incomes. However, inbound expatriates (or "impatriates") stand to benefit too, as do cross-border/frontier workers and young, first-time-job employees. With dual aims of moderating the effect of the rising cost-of-living and to make Luxembourg a more attractive destination for foreign employees and inward investment, the measures taken together act to lower the tax burden for many taxpayers.

Companies with international assignees may therefore see a change in their assignment-related costs and may offer more options for structuring their remuneration packages.

For assignees who are on assignment (or soon will be) to Luxembourg and assignees working outside Luxembourg but who are still subject to Luxembourg tax, international assignment cost projections and budgeting should reflect these changes once they come into effect. Where appropriate, adjustments to tax-equalisation packages and withholdings may need to be considered / made.

Adaptation of Personal Income Tax Brackets and Relief for Tax Class 1A

In accordance with the 2023-2028 coalition agreement of the new government,[2] the Bill introduces several amendments to the Luxembourg income tax law, intended to provide relief for all taxpayers, but mostly benefitting low-income households and single parents:

- Adjustment of the personal income tax brackets by two and half times the cost-of-living indexation;
- Tax relief for taxpayers falling within tax class 1A (single-parent households, people over 64, and widows) by (i) adapting the progressivity of the tax brackets, (ii) increasing the single parent tax credit, as well as (iii) increasing the tax deduction for dependent children who are not part of the applicant's household;
- Full tax exemption of the non-qualified minimum social wage.

These measures would become applicable as from tax year 2025.

Changes to the Participative Premium

To increase the attractiveness of working in Luxembourg, the government introduced in 2021 the participative premium regime. Under this regime, employers may pay a premium to their employees which would be considered as fully deductible for tax purposes. Employees on the other hand benefit from a tax exemption of 50 percent on the amount of the premium. This benefit is, however, only granted if certain conditions are met. For example, the aggregate amount of the participative premiums cannot exceed currently 5 percent of the company's profits (or of the fiscally integrated group's companies (hereafter 'the Group'), if elected) for the previous year and the premium cannot exceed 25 percent of the employee's annual remuneration.

In the 2023-2028 coalition agreement of the new government, it was foreseen that the participative premium regime would be adapted to make it attractive. The changes in the new Bill now provide that the following conditions are changed:

- Increase of the annual remuneration cap from 25 percent to 30 percent, and
- Increase of the employer allocation rate from 5 percent to 7.5 percent of the company's (or of the Group's) profit for the previous year.

The remaining conditions remain unchanged. The amended conditions would become applicable for tax year 2025.

Changes to the Impatriate Regime

In 2021, the government provided a legal basis to the impatriate regime and introduced an impatriation premium which:

(i) is limited to 30 percent of the gross amount of annual remuneration (excluding any benefits in cash and/or kind) and

(ii) is benefiting from a 50-percent tax exemption.

(For related coverage, see *GMS Flash Alert* 2020-507, 23 December 2020.)

The regime is subject to several conditions.

The new Bill aims to simplify the regime. Instead of the current regime which is based on an exemption of the actual expenses borne by the employer and the partial exemption of the impatriation premium, the new model provides for a lump-sum regime consisting of a 50-percent tax exemption of the gross amount of the annual remuneration (excluding any benefits in cash and/or in kind). The gross amount of the total annual remuneration to which the 50-percent tax exemption applies cannot exceed EUR 400,000.

Conditions to benefit from the new regime remain vastly unchanged, with one key consideration. Under the previous regime (i.e., currently applicable), one of the conditions is for the impatriate's professional activity in Luxembourg (i.e., for which he or she is benefiting from the regime) to be his or her main activity. Under the new regime, this condition has been modified such that the professional activity of the impatriate (i.e., for which he or she is benefiting from the regime), should represent at least 75 percent of his or her working time.

An existing condition for applying the regime provides that the number of impatriates entitled to the impatriate regime should not exceed 30 percent of the total workforce (full-time jobs) of the company in which the impatriate works. This condition is not required for companies that have been in existence for less than ten years. The new Bill proposes that this condition would be checked by including part-time employees for the calculation of the maximum number of employees eligible for the regime.

Individuals who already benefit from the current impatriate regime shall remain under such regime provided they continue to meet the conditions of the latter regime unless they expressly request of the Luxembourg tax authorities the application of the new regime as from 2025. Such choice shall then be irrevocable and supported by an upfront review of the impatriate's remuneration package.

New Bonus for Young Employees

The Bill introduces a new bonus for young employees to help them in the first years of their professional life. The granting of the bonus is at the discretion of the employer and limited based on the amount of annual remuneration. In this respect, an employee working full time may receive an annual bonus ranging between EUR 2,500 and EUR 5,000 (depending on annual remuneration), of which 75 percent would be tax free. Several conditions would need to be fulfilled to benefit from this:

- The employee must be younger than 30 years old (determined at the beginning of the tax year);
- The employee must be in his or her first job with a Luxembourg company, or a foreign company with a permanent establishment in Luxembourg, and have an indefinite-term contract;
- The employee may benefit from this bonus for a maximum period of five years.

The benefit would cease to apply if the employee decides to change his/her employer. A Grand-Ducal decree will be published to provide additional administrative clarifications, notably how to apply the benefit when the employee would work part-time/part-year for the employer, or if the employer would be part of a fiscally integrated group.

New Tax Credit for Cross-Border Workers

The Bill also provides relief for cross-border workers by introducing a new tax credit on overtime hours. Under current Luxembourg income tax law, overtime hours (i.e., both the main salary and the supplementary payment for the overtime activities) may be tax exempt, but may be taxed by the taxpayer's resident country according to certain double taxation treaties ("DTT") (e.g., Germany). These taxpayers may now receive some relief according to this new tax credit.

The new tax credit is subject to certain conditions. The tax credit would not apply automatically, but a request must be made via the filing of the annual tax return or the simplified personal tax return ("décompte annuel") and would only be available to taxpayers having their tax residence in a country with which Luxembourg has concluded a DTT. The remuneration of overtime hours should moreover exceed EUR 1,200 and effectively subject to tax by the resident state. The total amount of tax credit granted would be capped at EUR 700 per year per individual.

This tax credit would already be available for tax year 2024.

KPMG INSIGHTS

These newly announced tax measures provide much-needed relief for both individuals and companies.

While most of these tax measures were already part of the 2023-2028 coalition agreement, there was one new measure that was announced during the press conference, which was not included in the Bill. It concerns a full deduction of mortgage interest on loans financing an individual’s primary residence as from 2024 (for the first year and the following year). Since this measure is not included in the Bill, it remains to be seen whether this measure would be limited in time (e.g., only applicable in 2024 and 2025), or otherwise be applicable indefinitely.

The Bill will now go through the usual legislative process and may be subject to further amendments.

Employers with questions about the tax measures in the Budget and their impact on the organisation’s payroll function and their employees (including globally mobile employees) may wish to consult with their usual tax professional or a member of the tax team with KPMG in Luxembourg (see the Contacts section).

FOOTNOTES:

1 On the *Chambre des Députés* webpage, see: Projet de loi 8414: Projet de loi portant modification : 1° de la loi modifiée du 17 avril 1964 portant réorganisation de l'administration des contributions directes ; 2° de la loi modifiée du 4 décembre 1967 concernant l'impôt sur le revenu ; 3° de la loi modifiée du 11 mai 2007 relative à la création d'une société de gestion de patrimoine familial (« SPF ») ; 4° de la loi modifiée du 17 décembre 2010 concernant les organismes de placement collectif.

For more information, see the “Newsletter du 22 juillet 2024” published by the tax authority (*Administration des contributions directes*).

2 In November 2023, Luc Frieden, leader of the CSV party, became the new prime minister of Luxembourg upon the formation of a new govenrment.

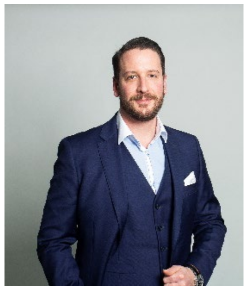
*   *   *   *

RELATED RESOURCE

This article is excerpted, with permission from "Luxembourg Tax Alert 2024-06" (19 July 2024), a publication of the KPMG International member firm in Luxembourg.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Luxembourg:



Xavier Martinez
Partner
Tel. +352 22 51 51 5345
Xavier.martinez@kpmg.lu

Sacha Thill
Partner
Tel. + 352 22 5151 5588
Sacha.Thill@kpmg.lu

The information contained in this newsletter was submitted by the KPMG International member firm in Luxembourg.

www.kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us: **kpmg.com**