



# SOCIONEWS

## THE YOUNG EMPLOYEE BONUS – AN OPTION FOR EMPLOYERS WISHING TO RETAIN THEIR YOUNG EMPLOYEES!



LAW

From January 1st, 2025, the young employee bonus came into force to support young workers under the age of 30 in Luxembourg.

To be eligible and benefit from a tax exemption of 75% of the young employee bonus paid to them annually by their employer, employees must hold their first permanent employment contract (CDI) with an employer established or having a permanent establishment in Luxembourg and remain with the same employer for as long as they wish to receive the bonus, with a maximum duration of five years.

The maximum annual amount of the young employee bonus giving rise to exemption depends on gross annual pay, with a ceiling set at 100,000 euros. As gross annual earnings increase, the amount of the bonus giving rise to the exemption decreases.

The aim of this bonus is to help young people get off to a good start in their working lives.

A Grand-Ducal regulation of December 20th, 2024<sup>1</sup> sets out the terms and conditions for the application of the young employee bonus and determines how it is granted and how the exemption is calculated, including for periods of remuneration that do not correspond to periods of full-year, full-time employment.

**This is a tax advantage that allows 75% of a bonus paid to young employees with permanent contracts who are under 30 years old and entering the Luxembourg labour market to be exempted from taxation.<sup>1+2</sup>**

1 Grand-Ducal regulation of December 20th, 2024 relating to the methods of calculation of the young employee bonus and of calculation of the exemption provided for in article 115, number 13d, of the amended law of December 4th, 1967 concerning income tax, Mémorial A n° 592 of December 24th, 2024.

2 Law of 20 December 2024 amending the amended law of 4 December 1967 on income tax (Mémorial A No. 589 of 24 December 2024).



## 1. WHO IS ELIGIBLE FOR THIS BONUS?

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Young employees meeting the following conditions:

- be under 30 years of age at the start of the tax year;
- hold their first permanent employment contract (CDI) with an employer established in Luxembourg or abroad but with a permanent establishment in Luxembourg;
- remain with the same employer for as long as they wish to benefit from the bonus, with a maximum limit of five years.

Tax exemption of 75% of the bonus is only applicable to permanent contracts signed on or after 1 January 2025.

## 2. IS IT COMPULSORY FOR EMPLOYERS TO PAY THIS BONUS?

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No, the payment of the young employee bonus is at the discretion of the employer.

## 3. WHAT IS THE MAXIMUM AMOUNT OF THE BONUS GIVING RISE TO EXEMPTION?

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The maximum amount of the bonus giving rise to exemption at 75 % of its amount, based on the gross annual remuneration of a full-time employee, is set as follows:

- 5,000 if gross annual pay is less than or equal to €50,000;
- 3,750 if gross annual pay is between €50,001 and €75,000;
- 2,500 if gross annual pay is between €75,001 and €100,000.

If the young employee's gross annual pay exceeds €100,000, he will no longer be eligible for this tax exemption.

## 4. HOW DOES TAX EXEMPTION WORK?

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The young employee bonus is 75% tax-exempt, which means that the employee will only be taxed on 25% of the amount received.

## 5. CAN THIS BONUS BE COMBINED WITH OTHER BENEFITS?

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Yes, it can be combined with other benefits such as the rent allowance introduced by the law of 22 May 2024 aimed at boosting the housing market.

## 6. IS THE BONUS ADJUSTED IF I WORK PART-TIME?

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Yes, in the case of part-time employment, the maximum tax-exempt amount of the bonus is calculated on a pro rata basis for the hours actually worked.

## 7. WHAT HAPPENS IF THE EMPLOYEE HAS ONLY WORKED PART OF THE YEAR?

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The employer must extrapolate the employee's annual remuneration over a full year of full-time work to determine whether he is eligible for tax exemption and set the amount of the exemption.

## 8. WHAT HAPPENS IF THE EMPLOYEE CHANGES EMPLOYER?

The employee loses the benefit of the bonus if he changes employer, as it is linked to his first permanent contract with an employer established or having a permanent establishment in Luxembourg.

## 9. HOW IS REMUNERATION TREATED IF THE EMPLOYER IS PART OF AN INTEGRATED GROUP<sup>3</sup>?

All remuneration received within the group is taken into account to determine whether the employee meets the conditions for exemption.

## 10. WHAT ARE THE OBLIGATIONS OF THE EMPLOYEE AND THE EMPLOYER?

The employee must provide the employer with evidence enabling it to verify that the contract binding him to this employer constitutes his first employment under a permanent contract in Luxembourg.

The employer must ensure that the eligibility criteria for exemption are met. Once this verification has been carried out, it is the employer's responsibility to determine the amount of the exemption from the premium on the basis of the actual working time and to adjust the exemption at the end of the year if necessary.

## 11. IS THERE ANY ADJUSTMENT AT THE END OF THE YEAR?

Yes, if the employee has benefited from an exemption that is too high or exceeds the remuneration threshold set by law, the employer must adjust the amount of the exemption in the last remuneration allowance of the tax year.

### A helping hand at the start of his career: the example of Lucas

Thanks to the young employee bonus, Lucas is benefiting from a financial boost at the start of his working life, a period when income is often lower, and expenses mount up.

With a gross annual salary of €48,000, Lucas can benefit from tax exemption for the young employee bonus if his young employee bonus is worth a maximum of €5,000 a year. If this bonus were a traditional bonus, it would be fully taxable, meaning that the amount of his bonus would be added to his income and subject to tax.

Thanks to the concept of the young employee bonus, only 25% of the amount of the bonus is taxable.

If Lucas's young employee bonus is €5,000, this means that only €1,250 is taxable, while the remaining 75%, i.e. €3,750, is fully tax-exempt, giving Lucas a tax break.

What's more, as this bonus can be combined with the rent subsidy, it represents an additional asset for improving their financial situation at the start of their career.

<sup>3</sup> An integrated group is a group of companies that are legally distinct but fiscally consolidated under the same mother entity, enabling them to pool certain tax items, such as profits and losses, to optimise their taxation. For the purposes of the young employee bonus, if an employer belongs to an integrated group, it must consider all the remuneration received by the employee within the various subsidiaries of the group to check eligibility for tax exemption and calculate the amount. Thus, if an employee has worked for several entities in the same group, all his remuneration is added together to ensure that he does not exceed the ceiling set to benefit from the exemption. This principle, defined in article 164bis of the amended law of 4 December 1967 on income tax, enables tax consolidation and may influence the allocation of the young employee bonus.