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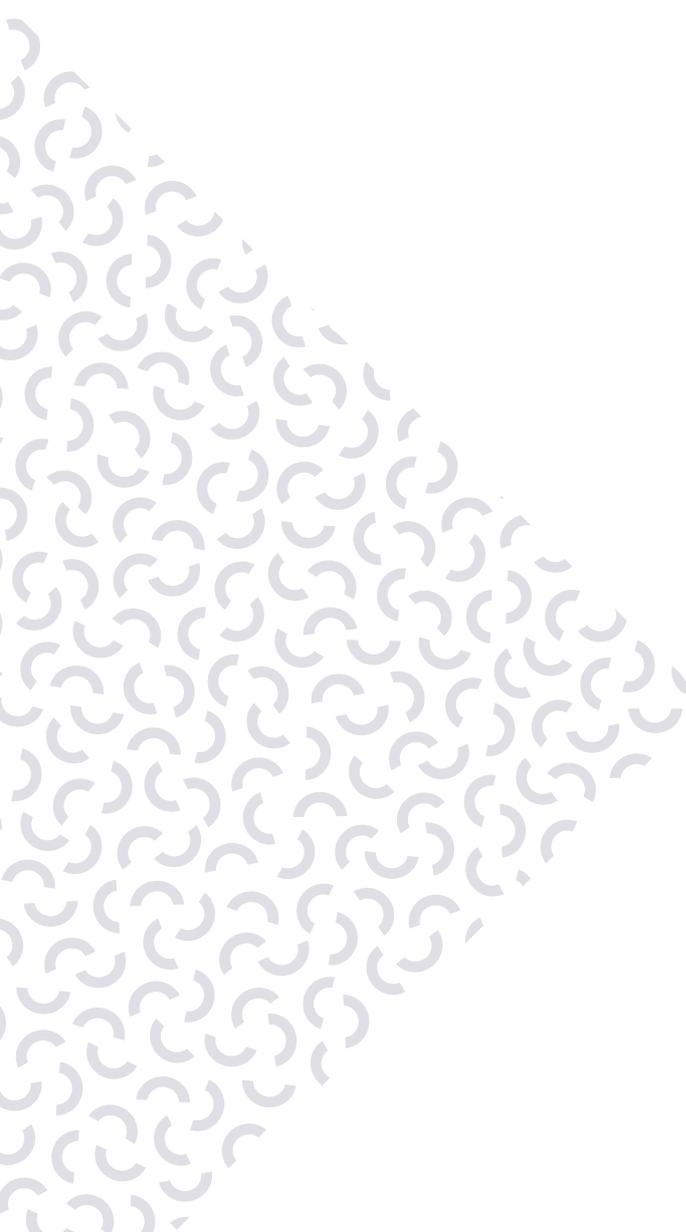


TAX
LAW

EMPLOYEES AND THEIR TAX RETURNS

APRIL 2025 

**YOU'LL
NEVER
WORK
ALONE.**



IMPRESSUM

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*President of the
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PREFACE

Dear readers,

As the years go by, it seems that the geopolitical horizon remains unchanged.

The tax future remains uncertain, although some changes may have taken place for the 2024 tax year that concerns us in this publication (as well as for the 2025 tax year, which we will cover in next year's publication).

The main objective of our publication dedicated to the taxation of income from an employed occupation remains to accompany the employed taxpayer through the various stages of his tax return; it highlights some of the main principles of the annual salary taxation that undoubtedly concern most people, as well as certain more specific situations that one or other employees may encounter.

You have until 31 December to submit your tax return or statement.

Enjoy your reading.

Luxembourg, April 2025

For any further information

<https://guichet.public.lu/en/citoyens/fiscalite.html>
and
<https://impotsdirects.public.lu>

The contact information of the various geographical locations are published under the heading "Expertise and addresses" on the direct taxation website (impotsdirects.public.lu), with an access map for each entity. The responsibilities of the different services responsible for individuals are also described.

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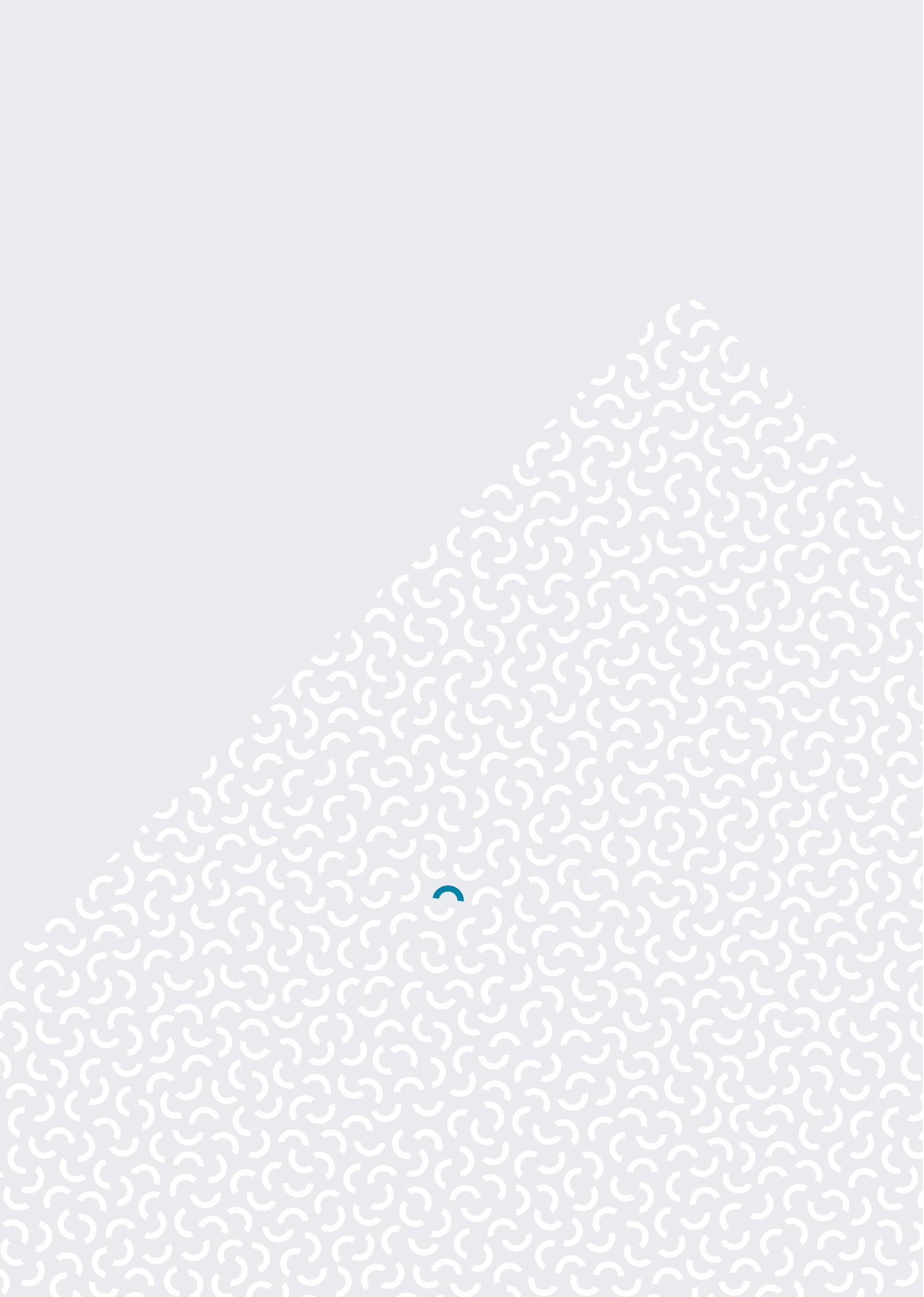
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In this publication, the masculine gender is used indiscriminately and only for the purpose of simplicity. It refers to all gender identities and thus covers both female and male persons, transgender persons, as well as persons who do not feel they belong to either sex or who feel they belong to both sexes.

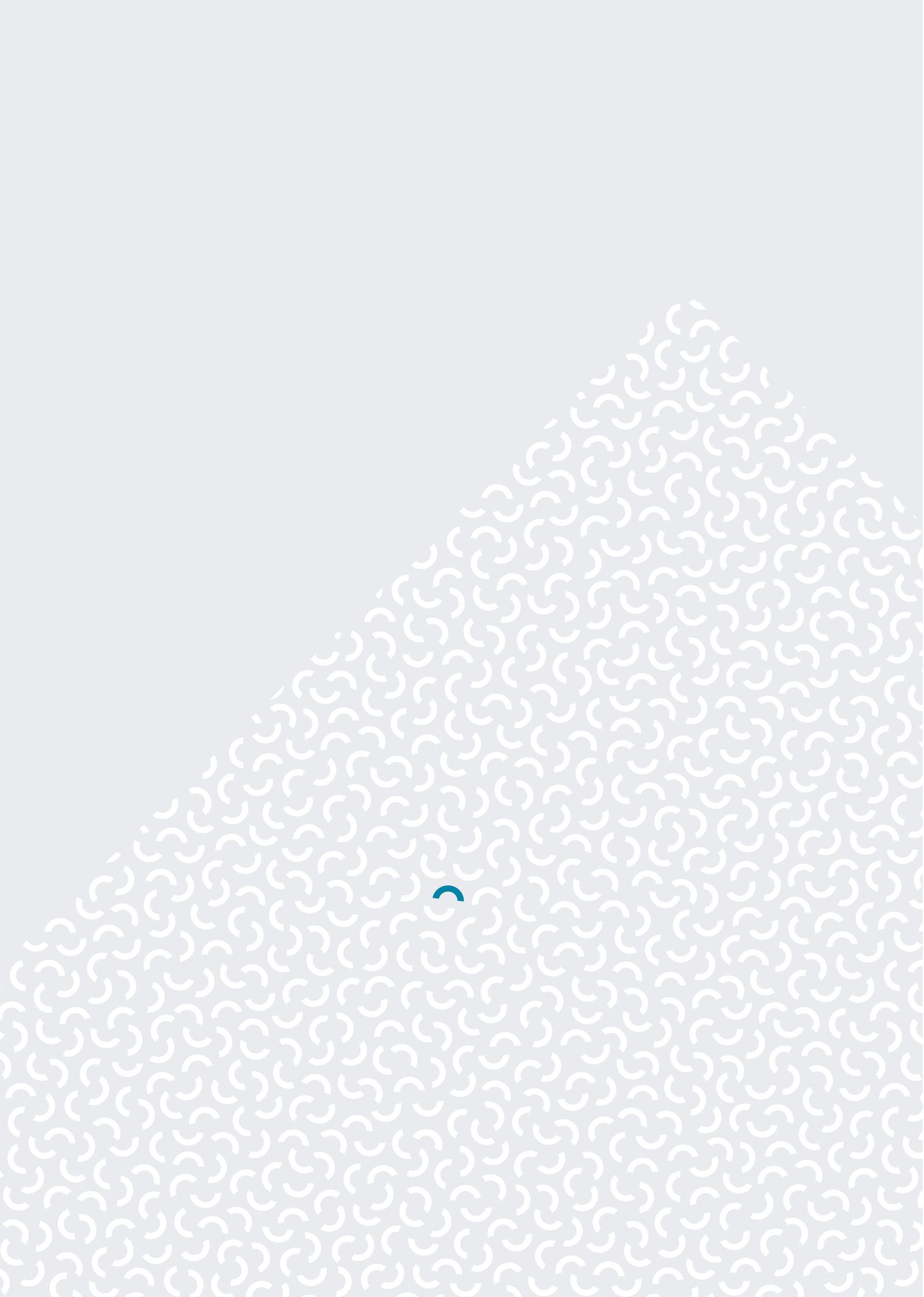
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I. AS A PREAMBLE TO FILING RETURNS





Before going into the substance of a tax return and the concepts it encapsulates, it seems useful to specify some more general elements of tax law that are related to tax returns.

1. TAX FORM

Forms for withholding tax are issued or corrected automatically by the administration for both residents and non-residents. Only non-residents are still required to specifically notify any change of address or marital status, which they must submit to the Direct tax administration (Administration des contributions directes – ACD). Use Form 164 NR to notify these changes.

The tax form containing the information necessary for the application of a tax rate (in particular tax class, tax credits for employees or any deductible lump sum amounts for travel expenses) is used by employers to calculate, usually on a monthly basis, the withholding tax on a taxpayer's salary, taking into account the tax class and any additional deductions entered on the form.

These forms are now multiannual and electronic; it is the employer's (or the Pension Insurance Office's) responsibility to obtain them from MyGuichet.lu.

There are two types of withholding tax forms:

- the primary tax card (initial tax form);
- the additional tax withholding card (secondary tax form).

Each employee may only be in possession of one primary tax card. Employees with several different employers must therefore request one or more additional tax cards, the number of which is theoretically unlimited. Spouses who are each employed have a main tax form for their primary employment and an additional tax form for supplementary income (i.e. probably the lower and perhaps less stable source of income).

ATTENTION: It is important to check that all data is correct at the time of issue of your tax card. Any complaints or modifications should be addressed immediately to the relevant RTS¹ withholding tax office.

It should also be noted that if spouses opt for individual taxation with reallocation or, for non-residents, manage to claim their rate (see below), a single tax rate will appear on both the main and additional tax forms, calculated according to the various deductions available to the couple, so that these deductions will no longer appear on the couple's forms.

As mentioned, travel expenses can be entered on the tax card, regardless of the means of transport used. Only a distance between home and work above four kilometres is entered on the main tax card (€99 per year and kilometre) to a maximum of €2,574 per year.

In addition, you can also have a single-parent tax credit (crédit d'impôt monoparental – CIM) listed, if applicable, or the allowances for other stable expenses, for charges or regular expenses regarding those amounts exceeding the flat-rate minimums. Examples include the purchase of a work tool, a pension for a divorced spouse, contributions to fraternal benefit societies, the care of a child who is not part of the primary household, etc. The employer will take this into account when setting the amount to be deducted at source.

¹ RTS = Retenue d'impôt sur les traitements et salaires

What about the additional tax card?

Employees with more than one job have a tax card for each of their employers. In this case, the main withholding tax form is issued for the employer who pays the most stable remuneration and whose annual amount is expected to be the highest. Similarly, spouses who are taxed collectively and who each have their own salaried activity in Luxembourg must also have two tax forms, one main one (relating to the highest income) and one additional one.

Pensioners who receive several pensions from different sources or who are still in paid employment receive a tax form for each source of income (pension and salary).

When submitting the request for this additional card, the main card must be presented to indicate the existence of the additional form. If an additional tax deduction card is drawn up tax is deducted from the additional salary at a flat rate shown on the form, depending on the amount of rate shown on the form, which depends on the taxpayer's tax class, and which will then be adjusted as part of the tax return.

Tax class	Rate of additional withholding tax
1	33%
1a	21%
2	15%

Note: These rates could be reduced by submitting an application with supporting documents to the RTS office.

Employees with additional jobs are entitled to flat-rate travel expenses allowance, entered on the additional account only after submitting a request to the RTS office.

In the case of collective taxation, the deduction of travel expenses is entered in full on the additional deduction sheet. Furthermore, this additional deduction card includes a standard annual deduction of €5,520 per year (i.e. €460 per month) corresponding to a spouse's deduction (abattement conjoint salarié – AC), which includes the minimum flat-rate deduction for business expenses (€540), the minimum flat-rate deduction for special expenses (€480) and the extra-occupational deduction (€4,500) granted to spouses who are taxed collectively.

It should be noted that provisions specific to the collective taxation of spouses relating to the withholding tax on wages do not cover collective taxation of partners (concubines). As the condition of common domicile or residence and the condition of the existence of a partnership must be verified at the end of the year, no advantage of collective taxation on request can be granted, in this case by inclusion in the partners' withholding tax form before the end of the tax year. Moreover, for the same reasons, in the case of a request for collective taxation of the partners, taxation will in any case take place after the end of the tax year by way of filing a tax return.

2. TAX CLASSES

The tax class is a crucial factor in determining the amount of the tax contribution that an employee pays each year. The Luxembourg system distinguishes between three tax classes: Class 1, Class 1a and Class 2. Which tax class you belong to depends on your personal situation.

2.1. Resident taxpayers

Residents are subject to income tax, whether the income is domestic or foreign. The tax you have to pay on your salary/income depends not only on how much you earn, but also on your marital status and even your family situation.

- **Class 1:** includes people who do not belong to Class 1a or Class 2, meaning:
 - single persons without children who have not yet reached the age of 64 at the beginning of the tax year.
- **Class 1a:** it is composed of the following taxpayers provided they do not belong to Class 2:
 - widowed persons;
 - single persons with one or more dependent children, who are entitled to a child tax allowance;
 - single persons who have reached the age of 64 at the beginning of the tax year.
- **Class 2:** includes married persons, including those with separate property, who will be imposed collectively. These are:
 - persons married at the beginning of the tax year and resident in Luxembourg at that time or who become resident in Luxembourg during the tax year. These persons may not live separately by virtue of a dispensation from the law or from a judicial authority. These persons may also be of the same sex;
 - resident taxpayers who get married during the tax year;
 - spouses who are not separated by virtue of a court decision, one of whom is a resident taxpayer and the other a non-resident person, provided they submit a joint application each year. In this case, the resident spouse must earn at least 90% of the household's professional income in Luxembourg;
 - persons who are residents or who become residents during the tax year and who submit a joint request for registration of the partnership under the Partnership Act of 9 July 2004, provided the partnership existed from the beginning to the end of the tax year and that a common domicile or residence was shared throughout the tax year. It should be noted, however, that the collective taxation of partners can only take place by way of 'assessment' (by means of the tax return), after the tax year has elapsed;

Collective taxation?

Collective taxation derogates from the principle of individual taxation by taxing members of the same household (e.g. spouses) collectively. The overall taxable income of the household is divided in two, and the basic rate for Class 1 is applied to that half of income; the tax share is then multiplied by two.

but also

- widows/widowers if the death which dissolved the marriage occurred during the three years preceding the tax year, i.e. during the three tax years following the year of death of a spouse;
- divorced or legally separated persons or persons separated by virtue of an exception to the law or a decision by a judicial authority, who benefit from a similar provision temporarily reinforcing their right to classification under Class 2 during the three years preceding the tax year, provided that submit an application for such application each year. These taxpayers therefore still belong to tax Class 2 during the three years following the year of their separation or divorce. If the divorce does not take place in the same year as the separation, it is the separation date that starts the three-year period. However, there is an additional condition: in order to remain in tax Class 2 during the transitional period, the person concerned may not already have had the advantage of classification in Tax Class 2 during the five years preceding the separation.

Example

You and your spouse are living apart under a dispensation from the judicial authority in 2014 pending the pronouncement of a divorce; you have no children.

You will belong to the following tax classes: from 2015 to 2017, you are still in Class 2. In 2018, you will move to Class 1.

If you were to remarry in 2019 and divorce again in 2020: in those two years, you return to Class 2, but in 2021 and 2022, you are in Class 1, since in the previous five years you benefited from the provision that allowed you to remain in Class 2 after a divorce. In 2023, on the other hand, you return to tax Class 2 for another year before falling back into the individual taxation system, i.e. Class 1, from 2024

Subsequently, the dissolution of a marriage by a court ruling puts an end to the collective taxation of the former spouses, and divorced taxpayers fall under the individual taxation system (Class 1a or 1).

Legal separation?

At present, there is no legal provision that automatically exempts spouses from their obligation to live together; however, judicial authorisation for separate residence may be granted for the duration of divorce or legal separation proceedings.

According to the Direct tax administration, "legal separation is the state of two spouses who have been exempted by a judge from living together; the marriage is maintained, but the spouses are no longer obliged to cohabit. If the spouses have not reconciled after a period of three years, they may apply to convert their legal separation into a divorce. While the authorisation of separate residence as granted by order of a judge ruling on interim measures (separation by virtue of a dispensation from the judicial authority) is valid only for the duration of the proceedings, the judgment of legal separation is an exemption from living together which is unlimited in time.

De facto separation?

According to the Direct tax administration, de facto separation refers to "the situation of two spouses who live separately without having been authorized to do so either by a dispensation from a judicial authority or by a judgment of divorce or legal separation".

Married Class 2 taxpayers may jointly opt for individual taxation, despite their marital status.

The application for tax segregation must be made jointly by both spouses and submitted by 31 December of the tax year following the tax year in question; it results in taxation by assessment via filed tax returns of the spouses. It can also be submitted via an online procedure or by using form 166.

Spouses may decide on pure individual taxation, in which case they are taxed under Class 1, like two single persons. If the adjusted taxable income is determined individually for each of the spouses, they benefit from the extra-occupational allowance and the other tax reductions with their 50% increase each for dependent children: child allowance, interest expenses for the taxpayer's home (as well as increasing the special expenses deduction limit for the payoff of a home loan through accidental death insurance) or for personal expenses, insurance or mutual aid society premiums, contributions to home savings schemes, income percentages used to calculate exceptional expenses.

They may also decide on individual taxation with income reallocation, which equalises income by default. In this case, although the adjusted taxable income of each spouse is determined in the same way as for collective taxation falls under Class 1, the overall result corresponds to Class 2 taxation. The withholding tax rate will be adjusted for the second income in the couple and will be closer to actual taxation amounts as it is identical to the rate on the primary tax form. It should also be added that the taxpayer's liability in the event of enforced collection is then limited to the amount due individually, not collectively.

Individual taxation?

Individual taxation allows spouses to be taxed separately, under Class 1, while retaining the benefit of the tax deferral measures reserved for married persons or persons with children. In the "reallocation" variant, taxpayers can get a monthly tax rate that corresponds to their collective tax rate.

A [simulator](#)² is available at guichet.public.lu to help you decide.

Summary of resident tax classes

Resident taxpayer	Under 64 on 1 January of the tax year	Over 64 on 1 January of the tax year
Single	1	1a
Single parent ⁺	1a	1a
Married	2 or 1	2 or 1
Separated [*]	1	1a
Divorced [*]	1	1a
Widower [*]	1a	1a
Partner [°]	2	2

⁺ Single taxpayer eligible for child tax relief.

^{*} Collective taxation advantage continued for such taxpayers via judicial dispensation for three years after their separation or the dissolution of their marriage.

[°] Provided that all the conditions for eligibility to Class 2 are met.

2.2. Non-resident/cross-border taxpayers

Non-resident taxpayers are subject to tax on income in Luxembourg (professional, pensions or other). Non-residents are assigned a tax class as follows:

- **Class 1:** Persons in this category include:
 - single persons under age 64 at the beginning of the tax year with no children;
 - non-resident married taxpayers with professional income taxable in the Grand Duchy; certain of these persons may be entitled to classification in Class 2 and thus opt for collective taxation.
- **Class 1a:** Persons in this category include:
 - widows;
 - single persons with one or more dependent children who are entitled to a child tax allowance;
 - single persons who are at least 64 years old at the beginning of the tax year.
- **Class 2:** Class 2 includes:
 - married non-resident taxpayers provided they meet the conditions to be treated as residents (and are in this case taxed collectively in Class 2 and no longer individually in Class 1; see box on Article 157ter). If both spouses are subject to withholding tax on their salary or wages earned in Luxembourg, they may also both benefit from collective monthly taxation in Class 2, provided that they have successfully applied for taxation assimilation and have jointly applied to have their overall rate entered on the tax form. In both cases, taxation is applied via the married non-resident taxpayer assessment through filing tax returns;
 - non-residents who are widowed, divorced or separated (under a court order) are provisionally grouped in Class 2 for the three tax years following the death of a spouse, separation or divorce. They then transition to Class 1 or 1a;
 - on joint application, non-resident partners who are nationals of an EU Member State (e.g. French PACS, Belgian legal cohabitation or German "Lebenspartnerschaft"), who get the collective taxation benefit, but only by way of assessment (by filing a tax return). For this to happen, the conditions for taxation assimilation must be met by one of the two partners. Two further conditions must be met: the partnership must be in existence from the beginning to the end of the tax year, and the partners must have shared a common domicile or residence throughout that tax year.

Non-resident taxpayers get the following benefits without referral to Article 157ter (see box hereafter) :

- deduction of compulsory social security contributions;
- the statutory flat-rate allowance for travel and other business and special expenses;

² <https://guichet.public.lu/en/citoyens/fiscalite/declaration-impot-decompte/fiche-retenu-impot/imposition-collective-individuelle.html>

- deduction of personal contributions to a supplementary pension scheme set up by employers;
- the employee tax credit;
- the minimum wage tax credit;
- the 'CO₂' tax credit;
- the overtime tax credit.

Contingent upon on their family situation they can possibly benefit from:

- a tax moderation for dependent children (or the child tax relief), or even the income tax allowance for exceptional expenses due to children not belonging to the taxpayer's household.

As with residents, married non-resident taxpayers (and partners) can apply for individual taxation. For more details, we refer to the section on resident tax classes and to heading 4.1. hereafter.

Article 157ter: Assimilation to resident taxpayers?

In addition to the allocation of the tax class based on the marital status and family situation of a taxpayer, non-residents who are liable for tax in the Grand Duchy up to at least 90% of their total domestic and foreign income (for Belgian residents, this threshold is at least 50% of their professional income under Article 24 of the bilateral tax treaty) may request to be assimilated to resident taxpayers and to be subject to the same tax regime as these persons.

If the annual "net" income (net of business expenses) which is not subject to Luxembourg tax (and which precludes such assimilation) is less than or equal to €13,000, non-resident taxpayers are still assimilated and then taxed at the rate applicable to residents. Similarly, for the purposes of assimilation, the first 50 days not taxable in Luxembourg by virtue of a double taxation treaty signed by the Grand Duchy are considered as taxable income in Luxembourg (see also box under 4.2. below).

A request for assimilation is generally established by filing a tax return after the end of the tax year. These "assimilated taxpayers" will then be taxed in the Grand Duchy on their taxable (in-country) income at the tax rate applicable to Luxembourg residents based on both their domestic and foreign income (overall rate). They can then get the deduction and allowance advantages applicable to residents and are placed in the same tax classes as them.

In case of marriage, this rate is determined under Class 2, if the spouses are taxed collectively, and under Class 1, if the spouses jointly request individual taxation.

It should be noted that under Article 157bis paragraph 3, a non-married resident taxpayer who earns a salary (or pension) subject to withholding on wages and salaries and who fulfils the assimilation criteria (Article 157ter), may request that a personalised withholding rate be entered on his or her withholding tax form, based on the estimated income for the tax year in question (rather than under Class 1, which will appear by default).

For the implementation of this article, married taxpayers will be taxed collectively on their domestic income (unless they expressly request individual taxation), and the foreign income of both spouses will be considered to determine the tax rate. If the taxpayers are married, the request must be made jointly, even if it is sufficient that only one of the spouses be taxable in Luxembourg up to 90% of the total of his or her own domestic and foreign income.

In all cases, the application must be submitted by 31 December of the year following the tax year in question (by filing a tax return). However, it can also be made at any time before this deadline, either via an online procedure or by filing form 166.

This assimilation accordingly gives them the same deductions as residents for special expenses (interest expense, gifts and donations, etc.) and special expenses (divorce costs, childcare costs, etc.). In the case of such assimilation, expenses such as mortgage interest related to the financing of a primary residence may be considered in calculating the tax rate of non-resident taxpayers.

Summary: Non-resident tax classes

Non-resident taxpayer	Under 64 years of age on 1 January of the tax year	Over 64 years of age on 1 January of the tax year
Single	1	1a
Single parent ⁺	1a	1a
Married	1 or 2	1 or 2
Separated [*]	1	1a
Divorced [*]	1	1a
Widower [*]	1a	1a
Partner [°]	2	2

⁺ Single taxpayer eligible for child tax relief.

^{*} Collective taxation advantage continued for such taxpayers via judicial dispensation for three years after their separation or the dissolution of their marriage.

[°] Provided that all the conditions for eligibility to Class 2 are met.

In addition, non-resident taxpayers who earn taxable income in Luxembourg of a non-professional nature (that is not subject to withholding tax) are classified in tax Class 1 with a tax rate not lower than 15% (although which is not higher than a hypothetical tax threshold calculated on a case-by-case basis by the administration).

3. INCOME TAX RATE

Applied to taxable income, the Luxembourg income tax rate in force for the tax year 2024 is as follow:

- 0% for the income bracket below €12,438
- 8% for the income bracket between €12,438 and €14,508
- 9% for the income bracket between €14,508 and €16,578
- 10% for the income bracket between €16,578 and €18,648
- 11% for the income bracket between €18,648 and €20,718
- 12% for the income bracket between €20,718 and €22,788
- 14% for the income bracket between €22,788 and €24,939
- 16% for the income bracket between €24,939 and €27,090
- 18% for the income bracket between €27,090 and €29,241
- 20% for the income bracket between €29,241 and €31,392
- 22% for the income bracket between €31,392 and €33,543
- 24% for the income bracket between €33,543 and €35,694
- 26% for the income bracket between €35,694 and €37,845
- 28% for the income bracket between €37,845 and €39,996
- 30% for the income bracket between €39,996 and €42,147
- 32% for the income bracket between €42,147 and €44,298
- 34% for the income bracket between €44,298 and €46,449
- 36% for the income bracket between €46,449 and €48,600
- 38% for the income bracket between €48,600 and €50,751
- 39% for the income bracket between €50,751 and €110,403
- 40% for the income bracket between €110,403 and €165,500
- 41% for the income bracket between €165,500 and €220,788
- 42% for the income bracket above €220,788.

From this basic rate (Class 1), the other rates, notably Class 1a and 2, are deducted.

This rate is increased by the solidarity tax, which is currently 7%, or up to 9% for taxable incomes of more than €150,000 in tax Class 1 and 1a or more than €300,000 in tax Class 2.

Net income?

In the fiscal sense, the "net" income referred to here is the "gross" income that will be taxed after deduction of any expenses. The net income from salaried employment is the excess of the income over the expenses incurred in order to secure the income.

There are eight categories of income, such as business profit, profit from the exercise of a liberal profession or net income from investment income which have to be added up to determine total net income, of which the one we are mainly interested in is the net income from salaried employment (or from pensions). Depending on the personal situation of the employee, other types of income can of course be taken into account, such as net income from renting property.

In this publication, we limit ourselves to the provisions concerning income from employment. The procedure for determining taxable income can be summarised as follows:

From income to tax assessment: determining the annual tax contribution

Income from wages and salaries (and, where applicable, from other income categories)

- Professional deductions and fiscal exemptions

= **Adjusted net income**

- special expenses

= **Taxable income**

- deductions for actual extraordinary expenses, non-occupational expenses, lump-sum deductions for extraordinary expenses (disability, childcare, assistance or domestic services expenses or for children not belonging to the taxpayer's household)

= Adjusted **taxable income** (rounded down to the next lowest multiple of €50)

➔ the annual tax rate calculates the tax assessed on taxable income. This tax is increased by the solidarity tax. By deducting any withholding tax and advances, we obtain the amount still owed by the taxpayer or any refund to the taxpayer.

Once pre-tax income is established, the costs related to obtaining it and exemptions (income that is wholly or partly exempt from taxation) are subtracted. Special expenses, such as compulsory social security contributions, are deducted from net income, giving the annual taxable income. Before taxation, this taxable income must be adjusted by deducting a number of allowances to which the taxpayer may be entitled. The resulting amount is rounded down to the nearest multiple of €50.

This final amount constitutes the adjusted taxable income to which the annual tax scale is applied. The tax assessment deducted from the taxable income is accordingly increased by 7-9%, to constitute the solidarity contribution to the Employment Fund.

Let us not forget that to determine disposable income, it is still important to include the calculation of long-term care contributions, as well as to take into account possible tax credits, or even, if applicable, family allowances where the tax reduction for children is now integrated.

4. ADDITIONAL DETAILS ON SOME ITEMS RELATING TO TAX RATES

4.1. Optional individual taxation

At present, optional individual taxation concerns married persons and registered partners within the meaning of the law dated 9 July 2004 on partners, whether they are resident or non-resident.

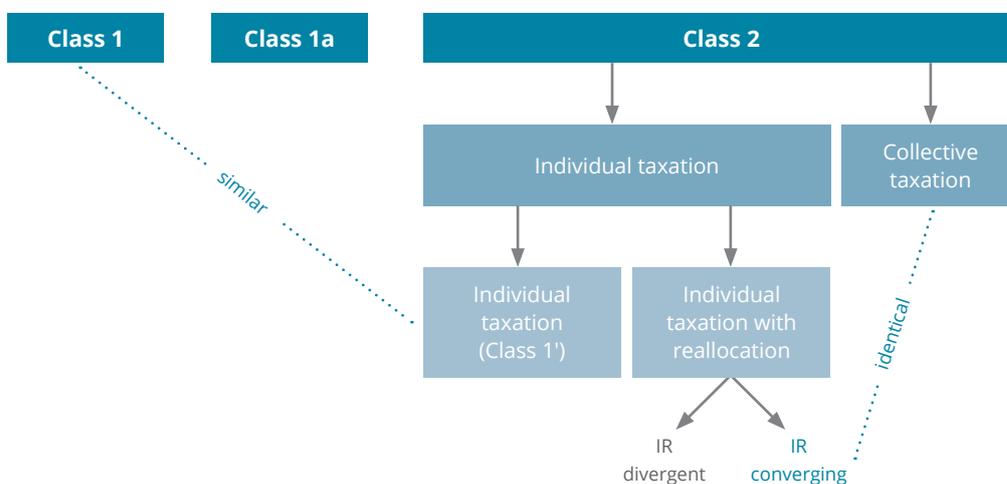
Married persons (or, if applied for, partners) are taxed collectively in Class 2. This collective taxation derogates from the principle of individual taxation: in the case of collective taxation, the taxable income of the members of the household is aggregated and then divided in two. The basic rate (Class 1) is applied to this half of the income. The resulting tax rating is then multiplied by two. Each of the spouses has a tax form, the principal one showing the Class 2 tax rate and the supplementary form for the second income showing a flat tax rate (15%).

Nevertheless, spouses/partners have the choice of either maintaining the collective taxation system (Class 2) or being assessed individually, in which case there is no longer any pooling of income.

Individual taxation is carried out by joint application either before 31 December of the year preceding the tax year concerned (in order to include the chosen situation on the tax form) or by 31 December of the tax year following the tax year concerned at the latest, by means filing a return. In all cases, individual taxation leads to taxation by way of the spouses' tax assessment, i.e. the filing of a tax return.

There are two types of individual taxation for spouses: purely individual taxation or individual taxation with reallocation.

Taxation of individuals



4.1.1. Individual taxation

Instead of being aggregated as in the case of collective taxation in Class 2, the adjusted taxable income is determined individually for each of the two spouses applying for individual taxation. The tax is levied on the adjusted taxable income earned by each spouse individually according to the tax Class 1 rate applicable to single persons, even if there are children.

Where both spouses have children of their own or in common, the child tax allowance, which is regarded as part of the family allowance (or state financial assistance for higher education or volunteers), is deemed to be granted to both spouses. Where applicable, the other type of moderation, in the form of a rebate, is granted on a 50/50 basis to both spouses.

The non-occupational deduction for dual-earner spouses is maintained and allocated in equal shares of €2,250 for each spouse, i.e. the non-occupational deduction of €4,500 divided in two.

The increase in the limits for deductible interest expenses for mortgage loans and the special deductions for own or joint children for whom the spouses obtain a child tax allowance is granted at the rate of 50% to each of the two spouses. Any income of a minor child is to be added equally to each of the two spouses' incomes.

This individual taxation constitutes a kind of 1 prime tax class (1'), since the taxpayer who has chosen it is taxed according to Class 1 like single persons, but retains the advantages of marriage and deductions for children (with the tax deferral measures), unlike single persons (see diagram above).

Overall, the couple pays more than in Class 2, but from an individual point of view, the second income will in theory pay less tax (see illustrations hereafter).

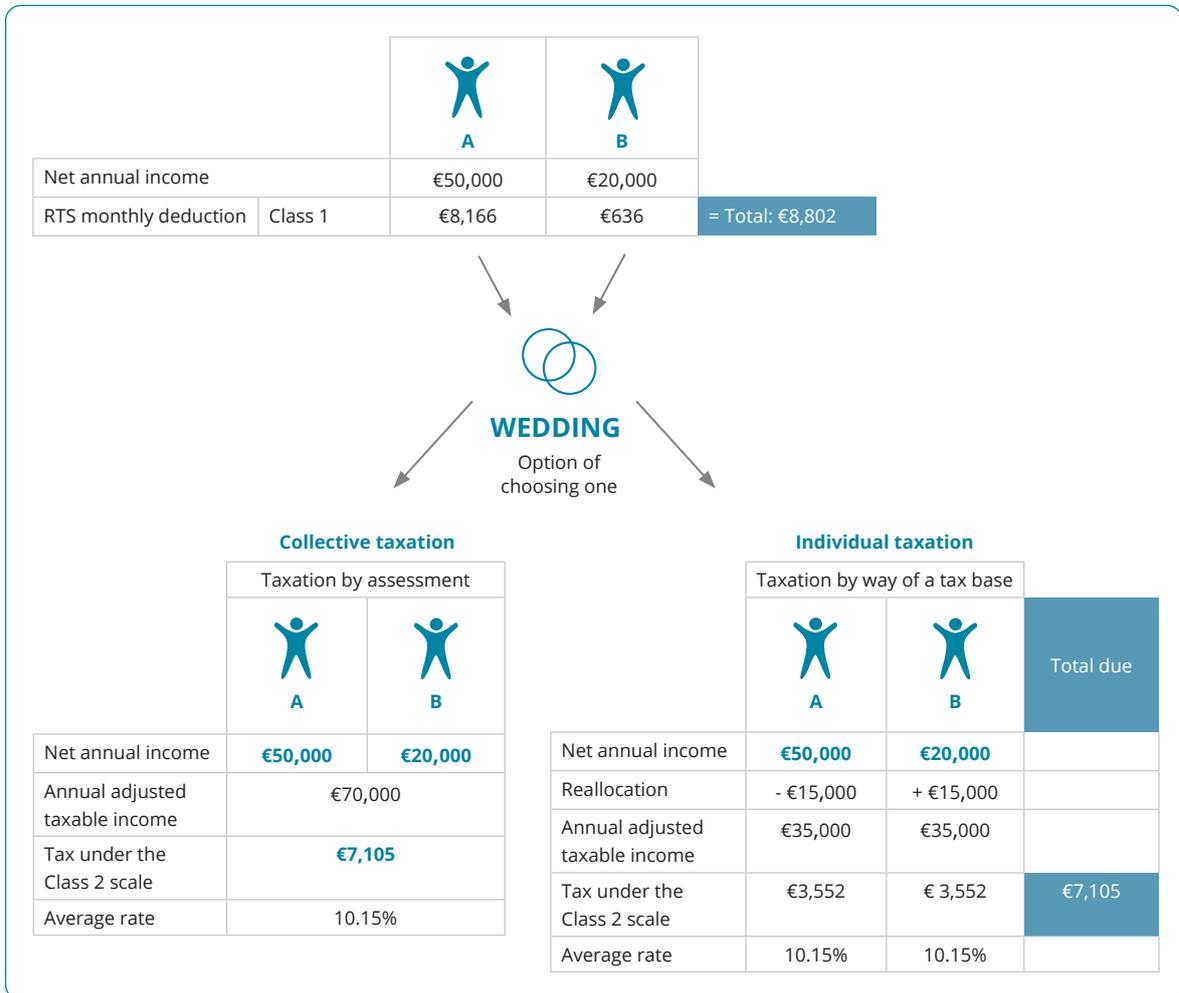
4.1.2. Individual taxation with income reallocation

Before being taxed in Class 1, however, it is possible for spouses (partners) to reallocate the adjusted taxable income, which is intended to make the two incomes converge (or possibly diverge further).

In case the spouses do not explicitly indicate an amount of adjusted taxable income that they choose to reallocate, it is then assumed that the reallocation gives both spouses the same adjusted taxable income (determined in the same way as in the case of collective taxation of both spouses).

Where reallocation of income occurs, a taxpayer in the exact situation of collective taxation under Class 2, although the Class 1 tax rate is attributed to each of the two spouses. This individual taxation with convergent reallocation constitutes a kind of 2 prime tax class (2').

Optional individual taxation (source: Ministry of Finance - Adjustment CSL)



Unlike class 2 collective taxation, however, the monthly withholding tax (RTS) on ordinary remuneration under the individual taxation with reallocation is determined by a single withholding rate for both spouses through application to the semi-net amount of remuneration, corresponding to that which would be applicable under collective taxation (10.15% rather than the flat rate of 15% for the second income in our example). Also, any quarterly advances are eliminated.

From an individual point of view this time, the second monthly income can theoretically be taxed less than in Class 2.

RTS* (source: Ministry of Finance - Adjustment CSL)

Collective taxation under Class 2				vs	Individual taxation with reallocation to Class 1			
	RTS*		Total due		RTS		Total due	
	A	B			A	B		
Own income	€50,000	€20,000		Own income = Base for RTS	€50,000	€20,000		
	Primary form	Supplementary form						
RTS class 2	€2,724	€3,000	€5,724	RTS following average rate (10.15%)	€5,075	€2,030	€7,105	
+ Advances			€1,381					
Tax recovered during the year			€7,105					

*RTS: withholding tax from wages and salaries (retenue sur traitements et salaires)

Annual taxation (source: Direct tax administration - Adjustment CSL)



4.2. Taxation of married non-residents

For non-residents, there is an ordinary law scheme (LIR Articles 157 and 157 bis) and an alternative regime (Article 157ter³).

Single non-resident taxpayers are taxed under Class 1, while single persons with dependent children under Class 1a.

Married taxpayers fall under Class 1 and are therefore taxed individually, on their individual salaries (common law). If two non-resident spouses have taxable income in Luxembourg, each spouse is taxed separately only on his or her own income, without taking into account any children.

However, just like other types of taxpayers, married non-residents may apply for treatment as resident taxpayers by making use of Article 157ter LIR (alternative regime) and be taxed collectively in Class 2 like married resident taxpayers. This collective taxation is based on that taxpayer's domestic income but on the joint domestic and foreign worldwide income of the two spouses together. Through this assimilation, a taxpayer may also apply for individual taxation for married persons (individual taxation or individual taxation with reallocation).

In order to achieve the assimilation available under Article 157ter, a married taxpayer:

- is taxable in the Grand Duchy to the extent of at least 90% of the total of his or her domestic and foreign income earned during the calendar year (for Belgian residents, this threshold is 50% of professional income) or if the person does not achieve the 90% assimilation rate,
- the sum of net income (i.e. after deduction of professional expenses; see Part II for details) that is not subject to Luxembourg income tax when less than €13,000.

Finally, it should be noted that, in verifying this rate of assimilation to a resident, the first 50 days which are not taxable in Luxembourg by virtue of a double taxation agreement are nevertheless assimilated to income taxable in Luxembourg.

Tax-free days in Luxembourg?

The situation of non-resident employees can be summarised as follows: for every day of employment physically carried out outside Luxembourg, that day is no longer taxable in Luxembourg; by agreement with the bordering countries, an annual tolerance period of 34 days exists with Germany, Belgium and France, during which the activity carried out outside Luxembourg remains taxed there. From the 35th day, tax is payable in the country of residence for the entire period. However, unilaterally, the Grand Duchy considers up to 50 non-taxable days in Luxembourg to check whether the rate of assimilation to a resident is achieved.

If two non-resident spouses are liable to withholding tax on wages and salaries (RTS) on their domestic income, then they may be subject to RTS at the applicable rate "in accordance with the terms and conditions of Article 157ter, provided that both spouses jointly request that this rate on the tax card". In other words, two non-resident spouses can also enjoy the option of having the Class 2 tax rate they are entitled to on their two tax forms (the primary and the supplemental one); accordingly, they will pay a monthly tax closer to what they owe in taxes instead of a flat rate on the second income, like residents who have opted for income reallocation.

Only the spouse working in Luxembourg can also benefit from this provision.

The request for the rate to be entered on the withholding tax card applicable in a tax year necessarily leads to taxation by way of assessment after the end of the tax year. In order to determine the rate, non-resident taxpayers are required to substantiate their annual foreign income with documentary evidence.

³ Under certain conditions, non-resident taxpayers may ask to be assimilated to resident taxpayers and be subject to the same tax regime as such persons [on equal terms, same rate applied, same tax class, same deductions available to residents for special expenses (interest expenses, gifts and donations, etc.) and exceptional expenses (divorce costs, childcare costs, etc.)]. In the case of such an assimilation, the costs of obtaining mortgage interest related to the financing of the main residence can be taken into account for the determination of their overall rate which will then be applied to their taxable income in Luxembourg (see also the box "Article 157ter: Assimilation to resident taxpayers?" in the previous heading 2.2).

4.3. Tax credits

4.3.1. Tax credit for employees

Any taxpayer earning income from taxable salaried employment in Luxembourg receives a tax credit for salaried employees (crédit d'impôt pour salariés – CIS) during the period in which he receives a salary (the tax form entitling him to the CIS); the amount of the CIS varies according to the employee's gross salary.

Tax credits are paid by employers, with certain exceptions. It is chargeable to and refundable to employees as part of the wage and salary tax deduction duly made by an employer on the basis of a tax deduction form. The tax to be withheld from the employee corresponds to the amount of the withholding minus the tax credit deducted. If the withholding tax is less than the tax credit, the excess tax credit is returned to the employee by the employer (known as a negative tax).

4.3.2. The minimum wage tax credit

A monthly tax credit (crédit d'impôt salaire social minimum – CISSM) chargeable through the withholding tax on wages and salaries was introduced to support taxpayers in possession of a tax form and receiving income from taxable salaried employment in Luxembourg within the minimum wage range. The amount of the CISSM varies according to the employee's gross salary.

If an employee has not worked a full month and full time, the CISSM is prorated according to a fictitious gross monthly salary that the employee would have earned if he had worked a full month and full time under the same pay conditions, as well as the number of hours actually worked.

4.3.3. Pensioners' tax credit

Any taxpayer who receives a taxable pension in Luxembourg receives a pension tax credit (crédit d'impôt pour pensionnés – CIP), the amount of which varies according to the gross pension amount.

The CIP is paid by the pension fund or other pension debtor in the tax year to which it relates.

4.3.4. The single-parent tax credit

The single-parent tax credit (crédit d'impôt monoparental – CIM) is granted to persons who fall in the Class 1a bracket with a dependent child and who are eligible for child tax relief. The amount of the CIM varies according to the adjusted taxable income.

The CIM is not granted when both parents of the child share a common home with their child.

4.3.5. The CO₂

From 2024 onwards, a CO₂ tax credit (CI-CO₂) is granted to compensate for the carbon tax and its repeated increase. Its amount varies according to the employee's gross salary.

4.3.6. The overtime tax credit

A tax credit for overtime (CIHS) can also be requested by taxpayers employed under private law (via tax return or annual statement). To do so, the taxpayer must be resident in a country with which Luxembourg has concluded an agreement to avoid double taxation, which assigns Luxembourg the right to tax the gross income from employment received by the taxpayer. Furthermore, the taxpayer must earn income from employment (for which Luxembourg has the right of taxation) and receive wages for overtime actually worked and fully exempt from tax. The amount of the tax credit varies according to the employee's gross remuneration for overtime.

4.3.7. The tax credit for tax table

For the 2024 tax year only, a tax credit for tax table (CIB) to the value of €108 may be obtained on request by taxpayers whose professional income is taxed in Luxembourg and who are in the same tax class for each of the 2023 and 2024 tax years, i.e. class 1a, provided that the total professional income earned during the 2023 and 2024 tax years is between €13,500 and €28,499 for each of these tax years; in class 2 in the event of collective taxation or during the three-year transitional divorce period, provided that the total professional income earned during the 2023 and 2024 tax years is between €13,500 and €64,499 for each of these tax years. For the bracket between €34,500 and €64,499 for taxpayers taxed collectively, one of the spouses or partners must have earned at least 70% of the household's total professional income for each of the 2023 and 2024 tax years.

5. DO I HAVE TO FILE A TAX RETURN?

If you are not required by the administration to file a tax return (form 100), this administrative step is optional.

Residents may submit a statement or declaration if they wish to submit a request for tax relief on withholding tax for a tax year and take advantage of additional deductions for special or even exceptional expenses or to have losses from a category of income other than salary or pension considered, such as a loss of rental income. Non-residents can opt for filing a return if they want to claim assimilation to residents, or alternatively for a statement to take advantage of deductions only granted on request to non-residents who are not assimilated within the meaning of the tax law which may not have been entered on the tax form. These include personal contributions paid by the employee to the supplementary pension scheme of his company, tax bonus, etc. and/or to submit a request for tax relief on the wage tax.

However, the obligation for the employee to fill in a declaration exists under certain conditions, the main ones of which are listed below. The declaration must be submitted to the relevant tax office by 31 December of the year following the tax year in question.

You have to submit a tax return if your annual taxable income consists wholly or partly of income subject to withholding tax on wages, salaries, pensions, investment income or income from directors' fees and if you meet one of the following conditions:

- your taxable income exceeds €100,000;
- either you alone or with your spouse receive compensation from several sources that is subject to tax on wages and salaries, and your taxable income exceeds €36,000 for Class 1 or 2 and €30,000 for Class 1a. If your household has a second tax form and if you exceed the applicable taxable income threshold, you are obliged to submit a tax return;
- as a resident taxpayer, you have opted, together with your non-resident spouse, for collective taxation (90% of the professional income of the household earned by the taxpayer in Luxembourg);
- taxable income includes, in addition to the income subject to withholding tax, income not subject to withholding tax which amounts to more than €600 in total (e.g. rent);
- your taxable income consists wholly or partly of wages or pensions which are not subject to withholding tax (e.g. remuneration paid from abroad);
- your taxable income includes more than €1,500 of investment income earned domestically that is subject to withholding tax (e.g. dividends);
- your taxable income includes more than €1,500 in director's fees subject to withholding tax / you are a non-resident and your in-country income consisting exclusively of fees exceeding the sum of €100,000, etc.

ATTENTION: Notwithstanding the legal provisions relating to tax returns (taxation by assessment) or to adjustments, if married residents opt for individual taxation, they will have to file a return. Non-resident married spouses must also file a tax return if they opt for collective or individual taxation. The administration is responsible for the annual statement in all cases where spouses waive collective taxation, opt for individual taxation with reallocation and are not liable to taxation by way of assessment.

It should also be noted that registered partners within the meaning of the Partnership Act of 9 July 2004 may also opt for collective taxation by means of the return.

If you fail to file your tax return on time, the tax office may impose a tax surcharge of up to 10% of the tax assessment, or even a penalty payment, the amount of which depends on the seriousness of the delay.

The amount of tax due is compared against withholding deductions and any advances paid during the tax year. If withholding amounts and the advances are higher than the tax due, the excess amount will be refunded to you. In the opposite case, you pay the balance due within one month. The Direct tax administration will send you your tax form by post with the detailed statement. Please note that a single notification is sent to spouses who are taxed collectively and share a common dwelling, unless they expressly request otherwise. This provision is extended to spouses and partners who opt for joint taxation with reallocation.

If you owe additional tax after the return has been submitted, you must still pay the tax within the prescribed period (one month after notification) even if you submit a dispute notice.

If you pay late, you will owe interest on arrears at the rate of 0.6% per month. However, you can ask for an extended payment period without having to pay default interest if the extension period is less than four months; a period of up to twelve months will incur interest at the rate of 0.1% per month, and you will pay 0.2% per month up to three years. Beyond that, the rate is 0.6% per month.

If a taxpayer believes he has been aggrieved, he may lodge a complaint against the tax assessment bulletin sent by the Direct tax administration with the Director of the Administration within three months of the notification of the bulletin.

Advances?

The administration can force you to make advance payments of tax if it finds that the tax you have paid through withholding tax in a tax year is lower than the tax originally assessed. This difference will, in principle, be paid for the following tax year in the form of advances. These advances are to be paid on a quarterly basis (10 March, 10 June, 10 September, 10 December) and are each equal to one quarter of the difference remaining to be paid in the previous year. Taxpayer may request a reduction or even cancellation of these advances by submitting a written request based on a change in personal circumstances (e.g. loss of employment). In case of individual taxation with reallocation of resident spouses or if non-resident spouses succeed in claiming their tax card rate, these advances are eliminated.

Annual adjustment procedure for employees?

The annual adjustment procedure (form 163 R, for residents, or 163 NR, for non-residents) is used to determine withholding tax in a given tax year for employees and pensioners who are not eligible for (or who have not applied for) taxation by assessment. It is made collectively in the name of the spouses (or of the taxpayer and his/her minor children), if they are taxed collectively.

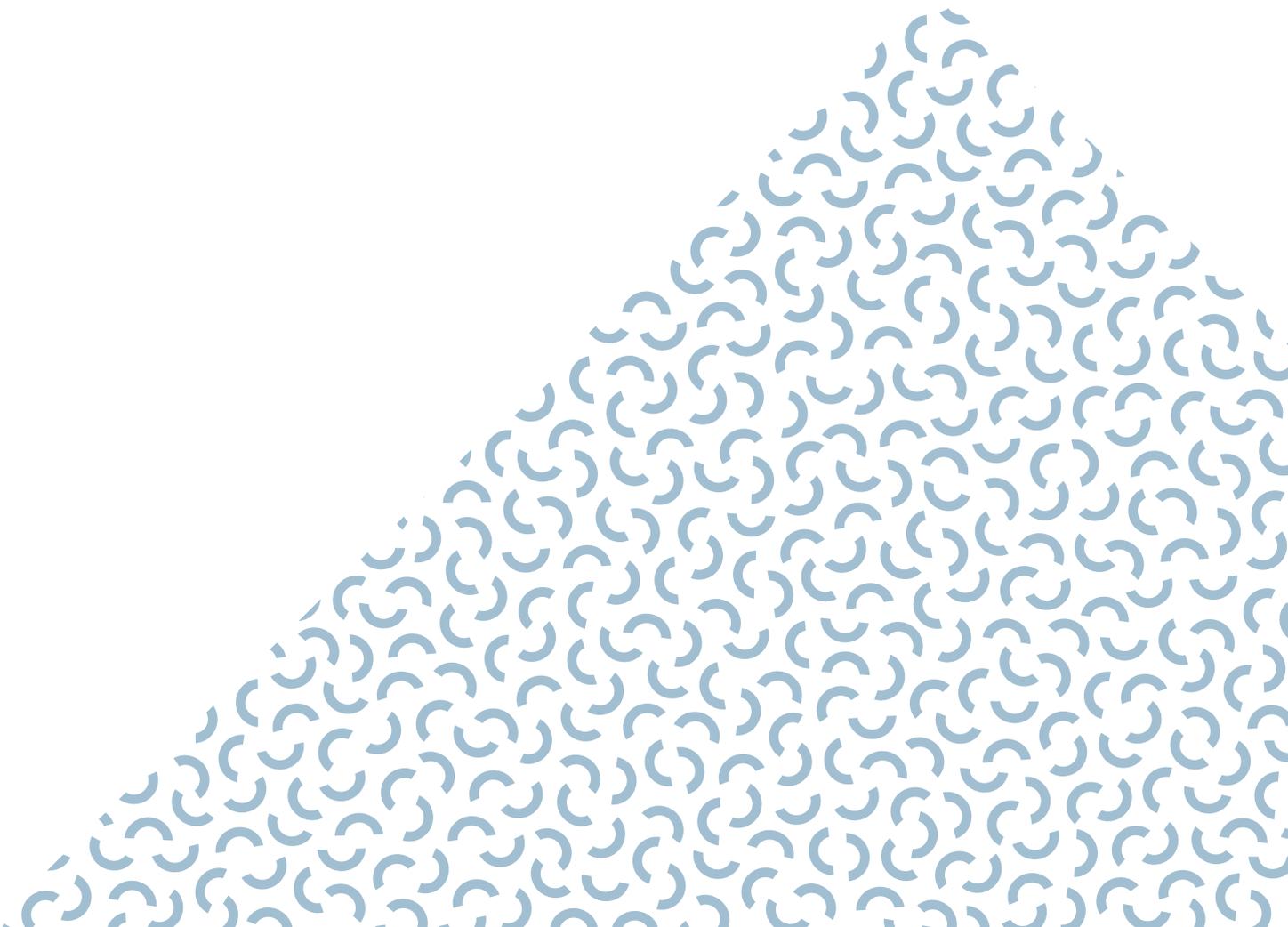
In order to be entitled to the annual adjustment, taxpayers must meet one of the following criteria: to have had their domicile or their usual residence in the Grand Duchy during the twelve months of the tax year in question; to have been continuously employed in the Grand Duchy for nine consecutive months during the tax year; to have been employed in the Grand Duchy during a certain period of the tax year if the gross compensation from this activity is at least 75% of the total of gross annual compensation and of benefits and other similar advantages in lieu of remuneration; they claim the child tax allowance or, if applicable, the child tax bonus or the single-parent tax credit (crédit d'impôt monoparental – CIM) insofar as it has not been granted during the year.

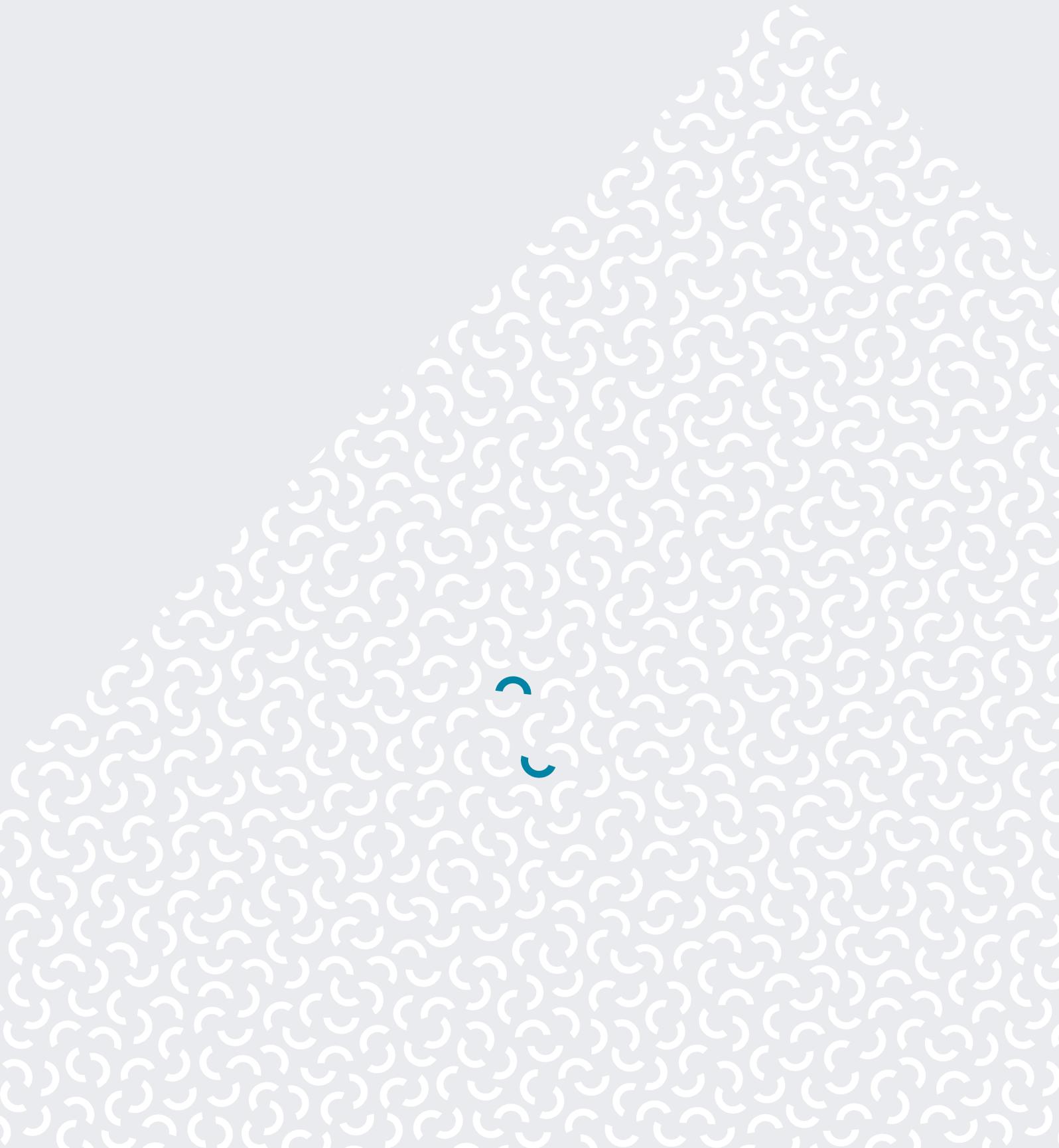
Employees or pensioners who are not taxed by means of a tax assessment (tax return) can, on request, have their tax deductions adjusted by the tax authorities via this annual adjustment procedure.

The advantage of the procedure lies, for example, in the case where an employee has received a Luxembourg income only during part of the tax year. Taxed according to the monthly scale, which is deducted from the annual scale, the taxpayer is therefore taxed monthly as if he received this monthly salary for the entire year. If this is not the case, the taxpayer is taxed too heavily on the basis of a monthly scale that is too high. For this reason, it is in the taxpayer's interest to request an adjustment via the annual procedure.

Applications for adjustments must be submitted by 31 December of the year following the year of the tax assessment. The administration will compare the annual sum of the tax deductions made from salary or pension with the annual tax corresponding to total annual income and determined according to the annual tax scale. If the sum of the deductions made is greater than the annual tax due, the excess is refunded to the employee.

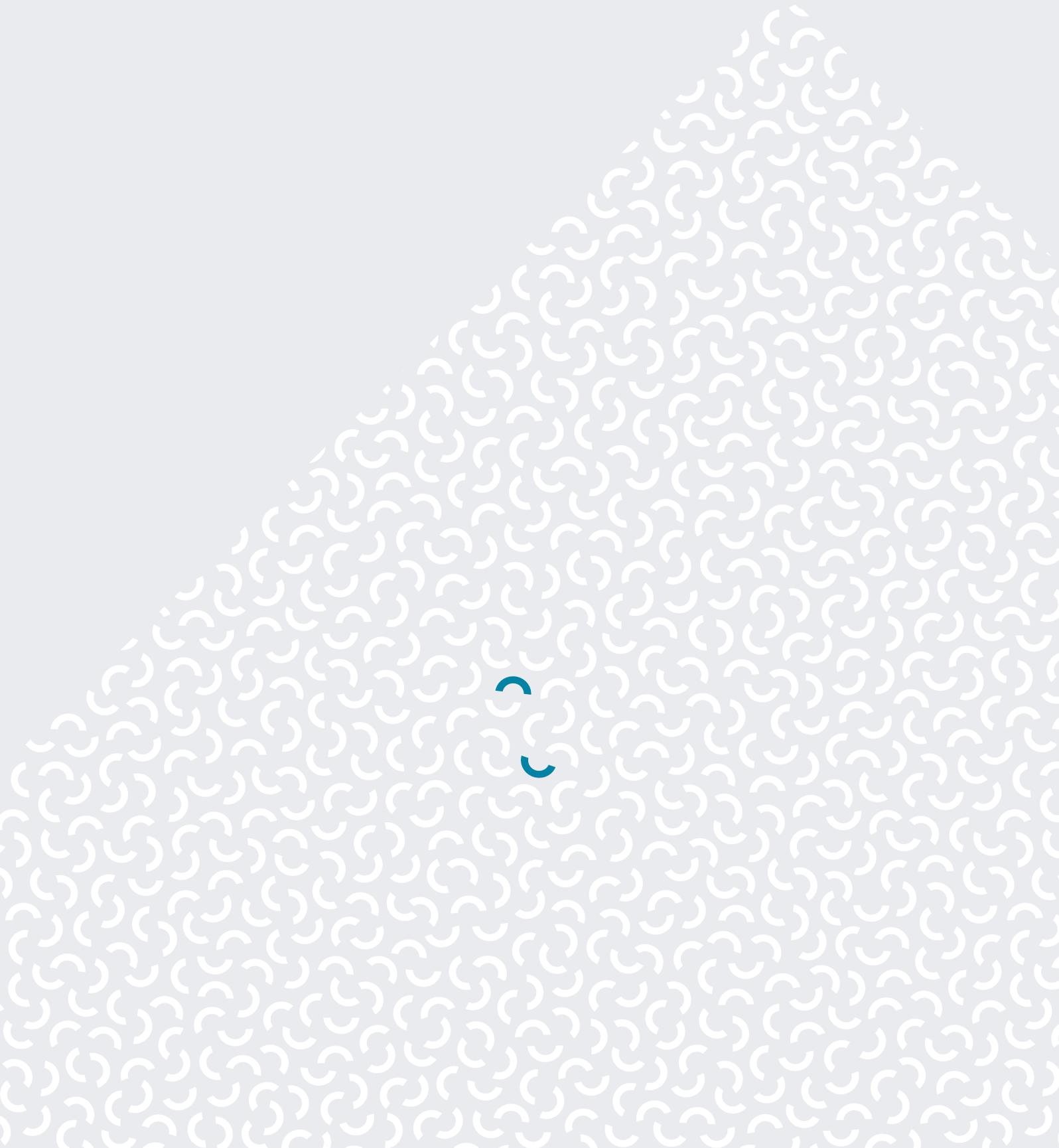
Non-resident employees (and employees who have had their tax domicile or habitual residence in the Grand Duchy for part of the year) who do not meet one of the above conditions, can also get an adjustment, considering all domestic salaries and foreign income for determining annual income and the overall tax rate, while the foreign part of annual income is exempt from taxation in Luxembourg.





II. REPORTING SALARIED INCOME BY HEADING





The form for reporting income is available in French (Form 100F) and German (Form 100D). You are free to choose which of the two copies you wish to complete. On request, it is possible, under certain conditions, to file Form 100 electronically, after having completed it on a computer (see the terms of use of MyGuichet.lu and the Luxtrust certificate). Depending on the currently very restrictive eligibility conditions, it is also possible to file the declaration directly online on MyGuichet.lu or even to take advantage of a pre-filled tax return (<https://123easy.public.lu/en.html>).

The following description of the tax return is based on the French version of this sample tax return (tax year 2024). In this publication, we limit ourselves to the provisions concerning income from salaried employment and the related deduction, allowance or moderation possibilities.

ATTENTION: The grey boxes on the tax return should not be filled in by the taxpayer, they are reserved for the Direct tax administration.

1. DESCRIPTION AND GENERAL INDICATIONS

1.1. Description (boxes 101 to 144)

On your tax return, start by entering a number of personal details under the heading 'identification'. This includes your first and last name(s), occupation, address, date of birth, bank account, etc.

If applicable, also fill in the boxes corresponding to the details of your spouse.

1.2. Details of children (boxes 201 to 241)

Next, provide details of any children you may have. The model form has four subheadings relating to children.

1.2.1. Children who were members of the taxpayer's household

Membership of the household is defined in principle as living permanently under the same roof as the parents and, for those under 21 years of age who are temporarily absent from the family home, not being engaged in an essentially gainful occupation (remuneration above the annual minimum wage, with the exception of remuneration for an apprenticeship, an internship or student work during the holiday period).

The household referred to in this context is not the taxpayer's tax household, but his household, his domestic home within a dwelling shared by the taxpayer and his child ("under the same roof"). Once the household in which the child lives has been determined, only then, if at all, is a link made to the tax household. A child cannot belong to more than one household in a given year, even if he moves permanently from one household to the other during that year (e.g. divorce of the parents).

In order to avoid the presence of two single-parent households in the same home, Class 1a (and thus the child tax allowance) is granted 'en bloc' for children in common to only one of the two parents living together without being married (otherwise known as cohabitation).

Reductions for children?

Each child entitled to the monthly child benefit (i.e. a child legally residing in Luxembourg or whose parents make compulsory social security contributions based on a professional activity or a pension) is entitled to a child tax credit. This €922.5/year is an integral part of the amount of the allowance paid to the recipient of family allowances. The child tax credit is deemed to be granted to the taxpayer in whose household the child lives (although this does not always coincide with the recipient of the monthly benefit).

It should be noted that family allowances continue to be paid after the age of 18 and up to the age of 25 only for students enrolled in secondary (technical) education and to disabled persons who are in training adapted to their abilities.

For all others (higher education and universities), the entitlement ends at the 18th birthday. Nevertheless, every full-time student in higher education has a right to financial aid in the form of a scholarship, of which moderation is deemed to be a part and which therefore also gives the right to such aid. Similarly, young residents who volunteer are also entitled to financial support which gives them the right to tax relief. It should be noted that while membership of the household is a sufficient condition for a child under the age of 21, it is important that the child who is at least 21 years old at the beginning of the tax year is in higher education as part of his or her vocational training in order for the relief to be granted. For those children who are at least 21 years old and living in the household of the parent(s) and who are in education or vocational training, the relief is granted without age limit, even if they have personal income that enables them to finance their education and maintenance.

Financial assistance for higher education is also available to non-resident students whose parent contributes to their maintenance, who are working or have worked cumulatively for at least 5 years in Luxembourg over the last 10 years from the date of application for this assistance or during the 10 years preceding the cessation of professional activity in the case of retired persons. Similarly, non-resident students whose parent contributes to their maintenance and has worked in Luxembourg for a cumulative period of at least ten years at the time of application are eligible. This also applies to a parent who has no link to the Luxembourg labour market, but whose new spouse/official partner meets the conditions. Also eligible are students who have been enrolled for at least 5 cumulative years of study at an institution located in Luxembourg or who have been legally resident in Luxembourg for a cumulative period of at least 5 years at the time of application for financial assistance.

Children who are entitled to a family allowance are also entitled to the child tax relief granted through this allowance (of which it is an integral part) or, failing that, in the form of a tax rebate (see box below).

In the case of collective taxation of spouses, the children of both spouses or partners are considered, and the reduction benefits the collective.

However, in the case of individual taxation, if the parents are married, the tax relief is deemed to have been granted to both spouses and the tax relief in the form of a 50% reduction to both spouses. If the parents are not married but live together, tax relief is granted to the taxpayer who receives the first family allowance payment for the child in the tax year, if it is a child of his or her own. If the assistance is paid directly to a beneficiary of full age (or if there is no assistance), the child is automatically part of the household of the parent who has ascendant status in the couple.

Tax relief?

Upon application (reporting or adjustment), taxpayers may get an end of tax year benefit through a tax reduction for dependent children (€922.5), which will be deducted from the tax due. This scheme is applicable if the child is not entitled to family allowance, a study grant or financial aid for volunteer work, but is part of the household of the taxpayer ("under the same roof") and lives effectively with the taxpayer. Accordingly, children under 21 years of age may be covered, if they are not studying or in a volunteer programme, or non-residents whose household includes a student in an academic programme without receiving a grant.

The benefit of tax relief is that the deduction limits, e.g. interest expenses in relation to the taxpayer's home, can be increased in line with the number of children in the household

If the child who gave rise to the right to this first payment of the allowance is common to both parents, the allowance is paid to the parent who received this payment because of the oldest shared child. This first payment therefore prevents the recipient of the allowance from waiving the tax consequences of obtaining the tax reduction, except in the case where the allowance has been granted to the child himself (if he is of age) or where the child gives entitlement to a tax reduction. If the child of full age is entitled to the first payment of child benefit (or other financial assistance) or if there is tax relief, the child tax credit is deemed to have been granted for the same year to the taxpayer who was receiving the credit in the previous tax year (unless the taxpayer declares otherwise in favour of the other parent). If no tax relief was available to the parents, the joint children are included in the household of one of the parents, at their option, for the tax year concerned.

In the event of an authorised change of beneficiary of the family allowance, the tax situation remains unchanged in the case of the collective taxation of parents. If there is no collective taxation of the household, the parent who receives the first monthly child allowance for the oldest child in the household is still entitled to tax relief for the relevant tax year. If the parents do not live together and the child moves permanently from one household to another, the child belongs to the household of the person who received the first payment of the allowance in the tax year (January/birth). If the adult child is the recipient of the first instalment of the family allowance (or other financial assistance), the child belongs to the household in which he lives (since the beginning of the year or at the time of the taxpayer's tax liability). If no aid is paid because of the child, the child is part of the household in which he lives either at the beginning of the year, at the time of birth/adoption or at the time of tax liability of the taxpayer.

In the case of children who live alternately with two parents who do not live together, only one of the two parents will be entitled to the tax effects of the child tax allowance, since a child cannot be part of more than one household in the same year; it is up to the parents to communicate their choice as to whether the child belongs to one of the two households.

1.2.2. Children who were not part of the taxpayer's household

In connection with the previous point, if, during the tax year, you have contributed more than 50% of the costs of maintenance and education or professional training of your child who does not belong to your household (and therefore does not live with you), in this case refer to the heading "exceptional expenses" (boxes 1724 to 1741).

1.2.3. Application for the single-parent tax credit

The single-parent tax credit (crédit d'impôt monoparental – CIM) is available on application, and under the condition of tax assimilation for non-residents, to persons in Class 1a with a dependent child (who receive the child allowance). However, the CIM is not granted when both parents of the child share a common dwelling with their child.

In 2024, for an adjusted taxable income of the taxpayer of less than €60,000, the CIM is €2,505 per year; for an adjusted taxable income of between €60,000 and €105,000, the CIM is $[2,505 - (\text{adjusted taxable income} - 60,000) \times 0.039]$ worth and for an adjusted taxable income of more than €105,000, the CIM amounts to €750 per year. The CIM is reduced by 50% of the amount of any allowances received by the child insofar as they exceed the annual amount of €2,424 (to include alimony, child support, education and training expenses, etc., excluding family benefits and orphan's pension).

The CIM is proportional to the period of liability in the tax year. If the tax credit has not been paid by the employer (e.g. non-residents), or only partially, it can be obtained after the end of the tax year by means of the adjustment procedure or, if applicable, filing a return.

1.2.4. Application for the child tax allowance

Children whose entitlement to tax relief expired in one of the two years preceding the tax year are entitled to a tax allowance up to the amount of tax owed, if they apply for it on their annual tax return or via the adjustment procedure. The child tax allowance, which is not a tax credit, is in a way a two-year extension of the tax reduction for dependent children.

A taxpayer is entitled to tax relief for children for whom he has received tax reductions in one of the two tax years preceding the tax year in question. Accordingly, if your child left the household in 2022, you can obtain this tax relief in 2023 and 2024 if, for example:

- you do not get tax relief for the same child in the same tax year;
- tax relief has not been awarded twice for the same child;
- in the event of divorce, legal separation or by virtue of a judicial dispensation, you are the parent whose child is part of the household.

The amount of the tax credit varies according to the taxable income of the household, unless the taxpayer has six or more children (for which he gets a tax reduction and/or tax credit), in which case there is no income consideration.

If the number of children does not exceed five and the adjusted taxable household income:

- is less than €67,400, the relief amounts to €922.5 per child;
- is more than €76,600, no relief is granted;
- is between €67,400 and €76,600, the relief is gradually reduced and corresponds to one tenth of the difference between the maximum threshold (€76,600) and the income taken into consideration. Thus, for an adjusted taxable income of €69,000, the bonus would amount to €760 per child, up to the limit of the tax due.

1.3. Marital status / non-residents (boxes 301 to 328)

> Marital status

A taxpayer must indicate his or her marital status in order to enable the Direct tax administration to determine a tax class.

> Non-residents

Non-residents can apply for assimilation to resident taxpayers in order to benefit more fully from the tax deduction possibilities. More information on this application can be found in the first part of this publication.

1.4. Options for collective and individual taxation (boxes 401 to 429)

This is where the possible application for collective taxation is made for partners (resident and non-resident) and spouses, one of whom is a resident taxpayer and the other a non-resident person.

In addition, resident and assimilated non-resident taxpayers may apply for individual taxation. More explanations on these applications can be found in the first part of this publication.

2. NET INCOME FROM EMPLOYMENT

The law considers income from salaried employment to be the and benefits (fixed or variable income, whether periodic or not, contractual or voluntary) obtained from the exercise of a salaried professional activity, i.e. an activity whose performance depends on an employer.

In addition to salaries, however, not only these incomes, which also include bonuses or compensation for example from profits, are taxed

Tax credit for employees?

A tax credit modulated to the gross salary of an employee with a tax credit is granted exclusively within the framework of the tax deduction on salaries and wages. For employees, this tax credit (crédit d'impôt pour salariés – CIS) is worth a maximum of €600 per year; it is granted according to income level on gross annual salaries of between €936 and €80,000. On the same principle, the CO₂ tax credit amounts to a maximum of €168.

In addition to taxable income from employment, the following are also taxable: pensions paid by the employer prior to the final termination of the dependent employment; allowances obtained after the termination of the dependent employment by way of salary/wage arrears or by way of compensation for dismissal; unemployment benefits; sickness and maternity benefits insofar as they are a substitute for wages; allowances, contributions and insurance premiums paid to a supplementary pension scheme ("Second pillar" pension); compensation of administrators and other persons who perform day-to-day management functions for companies/corporations subject to corporate income tax provisions.

In this section, you should report your taxable income in Luxembourg (column on non-exempt income) and, if applicable, the income that is exempt from taxation in Luxembourg because, for example, it is of foreign origin.

Income from pensions or annuities (boxes 801 to 859)

The section dedicated to pensioners is drafted in the same way as the section dedicated to salaried income, with its own specific traits. For example, it is not possible to deduct travel expenses.

Section P2 on the non-occupational allowance, which is automatically granted to collectively taxed taxpayers who are professionally active under the status of employee and personally affiliated to the social security system, makes it possible to apply for it when one of the spouses or partners within the meaning of the law earns income from a professional activity and the other has been in receipt of a pension for less than three years at the beginning of the tax year. This deduction amounts to €4,500 per year.

Also included under this heading are lump-sum payments for education or periodic payments under a title or volunteer agreement (e.g. deductible alimony from a divorced spouse in the debtor's name, free, life-contingent or legal enjoyment of a home not owned by the taxpayer).

A tax credit for pensioners is also enhanced under similar conditions to employees.

2.1. Determining net income from employment (boxes 701 to 778)

As an employee, you first enter the gross earnings received under your employment contract. If you work for several employers, you divide your earnings according to the different employment contracts. If you received unemployment benefit or sickness benefit during the year or a flat-rate salary from your employer who employs you exclusively in his private life (housework, childcare, assistance and care due to his state of dependence), these must be listed separately. You then calculate your total gross earnings.

You deduct from this total gross remuneration any tax-free remuneration: overtime, interest subsidies, etc. You also deduct either the minimum flat rate for business expenses (€540 doubled in the case of collective taxation; the flat rate is further increased in the case of disability or infirmity depending on the degree of disability), or expenditures actually incurred if they exceed the minimum flat rate. Finally, you still claim your home-work travel expenses.

The total wage tax deducted at source, which you will find on your certificate of remuneration, a copy of which your employer will have provided to you, should be entered in boxes 1901/1902 under the heading RD.

2.1.1. Exempt income (boxes 730 to 742)

In contrast, other types of income from employment will be exempt from tax. These exemptions include, for example:

- overtime and extra pay for night, Sunday and holiday work;

Wage supplements?

The income of an employee under private law resulting from overtime or work at night, on Sundays and on public holidays is made up of basic pay (normal pay) and a wage supplement, which is the increase in basic pay for one of the reasons listed above. As regards the tax treatment of these special hours, a distinction must be made between overtime and other atypical hours. The former are fully exempted from both the basic pay and the wage supplement (except for senior executives), while the latter (night work, Sunday work and work on public holidays) are only exempted from the additional part of the pay.

Where applicable (for non-residents), the overtime tax credit (crédit d'impôts pour heures supplémentaires – CIHS) is claimed via the declaration (see 4.3.6. and 6.). It is awarded on the basis of the level of gross remuneration for overtime worked (basic salary + salary supplements) from €1,200. The CIHS amounts to a maximum of €700 per year.

- 50% of the amount of the participation bonus;
- 25% of the "rent subsidy" (prime locative);
- benefits in kind (professional clothing) or special allowances granted by the employer for obtaining expenses (i.e. work-related expenses), such as possible allowances for subsistence costs, travel costs by an employee with his own vehicle on behalf of his employer (maximum €0.3/km), allowances for professional clothing and house removal or reimbursement of an employer's overheads for home workers. There are also special provisions for employees working on building sites and for couriers and truck drivers. It should be noted that these actual expenses are business-related; any reimbursement by the employer of the employee's private expenses such as public-school fees for an expatriate employee, unless they fall under a special "impatriate" regime, is fully taxable. The same applies to most reimbursements that are lump sum or exceed the exempted amounts provided for by law;
- cash benefits in the form of meal vouchers paid by an employer who does not have a canteen, as well as income from savings or interest subsidies, within the legal limits (see hereafter);
- jubilee gifts offered by employers to their employees, in particular for uninterrupted periods of work within the company, within the limits provided for by law (up to a ceiling of €2,250 for 25 years of service, €3,400 for 40 years and €4,500 for 50 years), for the company's anniversary every 25 years (€1,120) or for retirement (€1,120 after a continued employment of at least 35 years with the employer);
- severance pay or unfair termination pay and voluntary redundancy pay in the event of termination of a work contract (except in the case of a right to an old-age pension, including early retirement). With the exception of the statutory severance pay (fully exempt), these payments are exempt up to an amount that is twelve times the minimum monthly social wage (unskilled workers) applicable on 1 January of the tax year. For an employee aged 60 or over who is not entitled to an old-age or early retirement pension who would normally have received annual taxable income exceeding 150% of the amount of taxable income triggering taxation by assessment, the severance pay is exempt up to an amount of four times the minimum monthly social wage for unskilled workers;
- voluntary redundancy pay in the event of total or partial closure of a company or severance pay agreed as part of a social plan up to twelve times the minimum monthly social wage for unskilled workers on 1 January of the tax year;
- benefits in kind (medicines, courses of treatment, etc.) granted by a social security institution and cash benefits under sickness or accident insurance, with the exception of sickness or maternity allowances;
- compensation paid by the employer to his employees for proposed improvements up to a maximum of €250;
- 50% of the amount of monthly life annuities from an old age pension contract (the supplementary "third pillar" pension);
- pension fund redemptions;

- the capital and surrender value affected by an individual life, disability or death insurance contract;
- benefits from a supplementary pension scheme (the "second pillar");
- sums allocated to an employee by way of redemption of a pension or annuity that was amassed via contributions or premiums, unless these contributions are provided exclusively by the employer;
- contributions paid by employers and payable by employers by virtue of a legal obligation to social security or family allowance institutions and funds for employees;
- birth and family allowances or orphans' pensions;
- exemptions provided for by special laws: casino gambling proceeds, care allowance, back-to-school allowance, allowance for severely disabled and blind persons;
- etc.

2.1.2. Benefits in kind

Apart from the above tax-exempt exceptions which are well defined by the law, it is generally considered that any remuneration in kind or in cash granted by the employer is income from an employed occupation and is therefore taxable.

Benefits in kind can be integrated into remuneration packages and offered to all employees, either when the contract is signed or as part of a salary increase. For this reason, benefits in kind are an integral part of salary income as soon as they are made available to the employee. In the same way as emoluments, these benefits are therefore income to be included in taxable income, unless specifically exempted.

Non-cash goods and benefits, such as accommodation, heating, food, goods and other services, are valued at the average price usual in the place of consumption or use when they are made available (at market price). Some income in kind and in cash may be valued at a flat rate in the absence of goods or services comparable to those provided by the employer or of sufficient data for their accurate valuation.

> The main meal in a canteen and meal vouchers

The main meal in a company canteen set up by the employer is set at €2.80.

The meal voucher is the cash benefit for employee main meals during their working day where no company canteen exists. The number of vouchers that an employee will actually receive will therefore be equal to the number of working days worked by the employees.

In addition to the theoretically very strict rules for use, the meal voucher can be exempted from tax within the limits set by the law. The tax exemption will only apply to a meal voucher that is issued by an employer who does not have his own company canteen. The tax exemption limit for a voucher is €15.

There are two cases here:

- An employee pays for part of the voucher, in which case their contribution is deducted from the taxable part of the benefit, i.e. €2.80. In this case, the distribution for a meal voucher with a maximum value of €15 is as follows:

In €	Employee	Employer
Share	2.80	12.20
Taxable base	0	0

- If an employee does not pay for part of the meal voucher, the distribution is as follows:

In €	Employee	Employer
Share	0	15
Taxable base	2.80	0

If the value of the meal voucher exceeds €15, the maximum amount exempted remains €12.20. The meal voucher is a non-negotiable voucher valid for 12 months and, from now on (no later than 1 January 2025), will be issued in digital format. It can be used to pay for all or part of a meal or to purchase groceries.

> Company vehicles

While providing a pedal-assisted bicycle or cycle to an employee is valued at €0, the same does not apply to providing a company car for both professional and private use. A company car is defined as a vehicle belonging to the employer or for which the employer is responsible via a lease or rental agreement.

The standard system for assessing the value of this benefit in kind is a logbook based on the private use of the company vehicle. Employees should record all their journeys in the logbook and the benefit corresponds to the product of the number of private kilometres travelled and the cost price per kilometre of the vehicle for an employer.

In view of the practical difficulties in implementing this method, a monthly flat-rate system can be used to replace it on the basis of the acquisition value of the new vehicle, including VAT and options, with deductions where appropriate for discounts extended to the purchaser.

The monthly value of the benefit is based on the value of the new vehicle multiplied by the variable rates according to the different engines (from 0 to 1.8%) if the vehicle was registered between 1 January 2017 and 31 December 2021 or if it is the subject of a contract signed until 31 December 2021 and is registered until 31 December 2022.

CO ₂ emission	Petrol engine (alone or hybrid) or with compressed natural gas (CNG) engine	Diesel engine (pure or hybrid)	100% electric motorization or by hydrogen
0 g/km	/	/	0.5%
> 0-50 g/km	0.8%	1.0%	/
> 50-110 g/km	1.0%	1.2%	/
> 110-150 g/km	1.3%	1.5%	/
> 150 g/km	1.7%	1.8%	/

For contracts running from 2022 onwards for a company car registered in 2022, the assessment is made in 2022 according to the previous scheme and from 2023 onwards according to the new scheme below. Indeed, from 1 January 2023 onwards, the updated scheme offers a valuation scheme that evolves as follows for combustion engine vehicles registered between 1 January 2023 and 31 December 2024 as well as for cars that are the subject of a contract signed until 31 December 2024 and that are registered until 31 December 2025.

CO ₂ emission	Petrol engine (alone or hybrid)	Diesel engine (pure or hybrid)
> 0-50 g/km	0,8%	1,0%
> 50-80 g/km	1,0%	1,2%
> 80-110 g/km	1,3%	1,4%
> 110-130 g/km	1,5%	1,6%
> 130 g/km	1,8%	1,8%

In contrast, under the same conditions of registration and contract signature as in the previous paragraph the rates applicable to pure electric or hydrogen fuel cell (zero emission) cars are as follows.

Category	Rate
Hydrogen	0.5%
Pure electric consuming ≤180 watt-hours/km of electrical energy	0.5%
Pure electric consuming >180 watt-hours/km of electrical energy	0.6%

Then, for cars first registered from 1 January 2025 (and not covered by a contract signed until 31 December 2024), the monthly remuneration assessment scheme will be established as follows, according to the different categories and/or engines.

Category	Rate
Hydrogen	1%
Pure electric consuming ≤180 watt-hours/km of electrical energy	1%
Pure electric consuming >180 watt-hours/km of electrical energy	1.2%
Any other engine	2%

Four situations are considered:

- insofar as employees contribute to the purchase price of the vehicle, their contribution is deductible by way of depreciation of the lump-sum benefit, but may not exceed 20% of the purchase price payable by the employer (see example 1);

Example 1

Price of a diesel vehicle (including options, VAT and discount) emitting between 110 and 130 g/km of CO₂ = €25,000

Employee contribution = €10,000

Purchase price payable by the employer = €15,000

Rate of assessment of the benefit = 1.5%

Monthly value of the benefit to be taxed (1.5% of €25,000) = €375

Deduction of contribution (max. 20% of €15,000) = €3,000

Deduction of the contribution to be deferred (depreciation) over 3,000/375 = 8 months

For the first 8 months, no tax is due. After 8 months, the monthly value subject to tax will be €375.

- If an employee instead contributes to the cost of leasing or renting the car, then his or her contribution is tax deductible up to a maximum of 20% of the employer's cost (see example 2);

Example 2

Price of a diesel vehicle (110 to 130 g/km of CO₂) = €40,000

Monthly leasing cost = €1,500

Monthly employee contribution to lease = €300

Monthly cost of lease to be paid by the employer (1,500 - 300) = €1,200

Rate of assessment of the benefit = 1.5%

Monthly value of the benefit in kind (1.5% of €40,000) = €600

Deduction of the employee's contribution (20% of €1,200) = €240

Monthly value of the benefit to be taxed (600 - 240) = €360.

- If an employee contributes to fixed and flat-rate maintenance costs, he can deduct their contribution to these costs from the value of the taxable benefit in kind determined according to the logbook method or the flat-rate method.
- Finally, if the employee pays variable maintenance costs (fuel, repairs, etc.), these amounts cannot be deducted from the benefit in kind and are therefore fully taxable.

It should be noted that if the employee buys back a company car at a preferential price compared to the market price, for example at the end of the leasing contract, this additional benefit is evaluated by the administration using a simplified method (declining evaluation rate depending on the age of the vehicle at the time of purchase).

The deduction of both benefits (provision of a vehicle and buy-back at a favourable price) is limited to the total acquisition price of the vehicle less an employee's deductible contributions. Insofar as the theoretical amount of the benefit in kind calculated by the administration and resulting from the purchase of the vehicle does not exceed this ceiling, it is subject to taxation.

> Preferential loan or interest subsidy (otherwise known as interest savings and interest subsidies)

An employer, usually a financial institution, may grant a benefit to its employee by directly providing a loan at a preferential rate. The benefit may also consist of an interest subsidy, i.e. the assumption of the interest on a loan previously taken out by the employee with a financial institution.

Example

1. €100,000 loan at 1.0% interest rate
Taxable benefit (1.5% – 1.0% of €100,000) = €500/year, or €41.66/month.
2. €100,000 loan at 0% interest
Taxable benefit (1.5% – 0% of €100,000) = €1,500/year or €125/month.

The loan to the employee will be considered as a benefit if the preferential interest rate is lower than the statutory annual flat rate of 1.5%. If the loan is granted at a lower rate, the taxable base of the benefit will be the interest saving resulting from the difference between the statutory threshold of 1.5% and the rate granted by the employer.

Example

Interest due in 2022 by the employee = €8,000.
Employer's contribution of €6,000.
Taxable value of the benefit = €6,000.

In the case of interest subsidy by an employer regarding a loan taken out by the employee, the benefit will be assessed at the face value of the income earned.

However, these benefits may be exempted from tax insofar as the loan is economically related either to the taxpayer's own principal residence or to the acquisition of a first building plot intended for the taxpayer's principal residence or to a building under construction or renovation for his or her personal housing needs. Under no circumstances may it be a secondary residence.

The maximum exempted bracket is €3,000 per year, or €6,000 in the case of collective taxation or for employed taxpayers forming a single-parent household with at least one dependent child for whom they get tax relief.

If the benefits obtained relate to a loan of another kind (consumer loan), the exemption amounts to €500 per year, or even €1,000 in the case of collective taxation or for a taxpayer who is a single parent with dependent children.

To the extent that such interest and subsidies are exempt, they can no longer be deducted as operating expenses, procurement costs or special expenses.

> Providing accommodation

Providing accommodation free of charge or at a reduced rent (housing) also presents several scenarios.

Thus, if employees get the rent for their home paid for, the benefit of the amount of rent paid is fully taxable. Similarly, if the accommodation is rented by the employer and made available to the employee, the rent paid is in principle the benefit granted. In certain circumstances, however, it may be accepted that the benefit is equivalent to 75% of the rent paid by the employer excluding expenses.

The special scheme for "highly qualified and specialised employees"?

Under certain conditions, employees coming from abroad, with in-depth specialization in the sector in question, can have part of their expenses and charges totally exempted or up to certain ceilings, for example removal, repatriation, accommodation, schooling, travel expenses or the difference in the cost of living between Luxembourg and the country of origin. This scheme is granted specially by the Administration.

If the accommodation is furnished, the value of the benefit should be increased by 10%. Any charges paid by the employer are fully taxable, while any contribution by the employee to the cost of the rent is deductible from the benefit in kind.

If the dwelling provided to the employee is owned by the employer, the benefit is assessed by comparison with the rent for a comparable dwelling. If it is difficult to compare it to a dwelling with the same characteristics, the taxable monthly value of the benefit may not be less than €8 per m² of living space for a studio or flat or €7 per m² for other dwellings, excluding cellars, attics and garages.

Again, any charges paid by the employer are fully taxable and furnished accommodation attracts a 10% increase in the amount. In the case of reduced rental of employer-owned property, the employee's share of the rent will be deducted from the value of the benefit in kind.

2.2. Employment-related expenses

While retailers, self-employed persons or farmers may deduct operating expenses from their income, employment-related costs are deductible expenses incurred directly for the purpose of acquiring, securing and maintaining income from employment, pensions or annuities (in addition to miscellaneous income, income from the rental of property or capital assets).

Thus, from a tax point of view, "net income" from a salaried occupation is the excess of income over the costs of obtaining it. In this publication we limit ourselves to income from employment.

Deductibility of employment-related costs?

Employment-related costs are deductible from the category of income to which they relate insofar as they relate to taxable and non-exempt income, with the notable exception of the first €1,500 per annum of income from investment income such as dividends, profit shares, etc.

Let us assume, for example, that you have procurement costs of €1,000 relating to your employment and that the income from this employment amounts to €50,000, of which €2,000 is tax-free. You can therefore deduct the following amount as acquisition costs: $1,000 \text{ (actual acquisition costs)} \times 48,000/50,000$ (proportion of income not exempt from tax) = €960.

2.2.1. Employment-related costs deductible from income from an employed occupation (boxes 743 to 746)

In this respect, the taxpayer automatically gets a minimum flat rate deduction of €540 per year, or €1,080 if both spouses/partners liable for joint taxation receive income from salaried employment. This lump sum may be increased depending on the degree of disability or infirmity of the employee.

Employees may claim costs in excess of minimum lump sums if necessary, provided that they can justify them by producing the necessary documents.

Some examples that are deductible as procurement costs include:

- contributions to trade unions or the CSL;
- expenses for typical professional clothing (e.g. safety clothing);
- expenses for work tools which are used exclusively (at least 90%) for professional purposes. If the expenses are used for both private and professional purposes (at least 10%), a proportion may be deducted as acquisition costs, provided that there are objective criteria and documents that allow an adequate and easily verifiable separation of these expenses. Work instruments can be depreciated according to their usual period of use. If this period is less than one year or if the purchase price is less than €870, the expenditure is fully deductible in one year. The hardware and software of a computer recognised as "professional" are generally depreciated over a period of three years. For example, if a taxpayer buys a computer for €3,000, he can deduct €1,000 as an acquisition cost over three years if he can prove that it is a working tool;
- costs for professional books and periodicals;
- expenses relating to the maintenance of a home office used exclusively or almost exclusively for professional purposes. This presupposes that the office is a separate room which should not be disproportionate in size to the living quarters. Works of art to decorate the home office do not constitute acquisition costs. Expenses relating to the building or the entire dwelling such as rent, interest on debts, depreciation, heating costs,

repair and maintenance costs, etc. are deductible in proportion to the surface area of the office in relation to the total living space, including the office;

- expenses for professional development ("Fortbildungskosten") incurred by employees that are related to the profession they exercise. Expenses incurred by taxpayers to acquire the knowledge necessary for the exercise of their profession are in principle classified as living expenses and are not deductible;
- etc.

2.2.2. Travel expenses (boxes 747 to 754)

The tax-deductible travel expenses depend on the distance between the taxpayer's home and workplace. In principle, the employer's business address is to be taken as the place of work. The deduction for travel expenses is determined irrespective of the means of transport chosen by the taxpayer to get to his place of work.

If the taxpayer is not subject to tax for the whole year, the deduction is reduced to one-twelfth per month actually subject to tax. The expenses are, in principle and unless otherwise provided, recorded on the tax deduction form issued by the RTS office.

Only the distance of up to 26 km is considered for annual travel costs of €2,574 (€99 per km).

Employees who, during periods of incapacity for work due to illness, maternity, a work accident or an occupational disease, receive financial compensation for these reasons or their remuneration by virtue of a legal or contractual provision, are entitled to a deduction for travel expenses during these periods.

If the distance between home and work changes during the course of a tax year as a result of the taxpayer moving or changing jobs, the new distance is only taken into account if it has increased. In this case, the change in the deduction takes effect from the beginning of the month in which the change takes place.

3. OTHER INCOME

3.1. Net income from investments (boxes 901 to 938)

Under the heading "Net income from investments", you should report your income from investments such as dividends and profit shares, interest from certain debts, interest from bonds, etc.

This income will either be non-taxable or subject to withholding tax in Luxembourg (at a rate of, for example, 15% for dividends or 20% for interest on savings once €250 is reached).

You can deduct the costs of obtaining this income, e.g. bank commission fees, custody fees, safe-deposit box rental fees, interest on debt for the purpose of taking securities, etc.

Expenses are deductible in the category of income to which they relate and, in principle, where the costs of obtaining income from investments exceed the receipts, the excess loss (of the costs) cannot be set off against the net income from other categories of income; an exception, however, in respect of dividends, profit shares and other income from holdings of any kind in companies if a taxpayer has a significant holding in these communities within the meaning of the law and receives more than 50% of his professional income from an occupation in that community.

Each taxpayer may deduct at least the minimum flat-rate fee of €25 (€50 in the case of joint taxation of spouses/partners) as an expense. In addition, €1,500 of income from investments (interest, dividends, etc.) is exempt from tax (€3,000 in the case of joint taxation of spouses/partners).

Interest from an approved building society savings scheme is fully exempt. Interest subject to withholding tax in Luxembourg does not have to be declared.

3.2. Income from rental of assets (boxes 1001 to 1055)

If you receive income from the rental of a building, you should fill in this section (plus appendix), as well as if you own a home that you occupy yourself, which will allow you to deduct any interest liabilities arising from this home.

A tax exemption of the rent is provided for in the case where a dwelling is rented out through approved bodies carrying out social rental management as provided for in the amended law dated 25 February 1979 on housing assistance. This exemption rises to 90 % as from the tax year 2024.

Here we focus on the personal dwelling.

Enter the address of the dwelling and the date of occupancy in the building.

The rental value is a virtual rental income that you should declare if you own a dwelling that you occupy yourself as your main occupation. However, the rental value of the dwelling, which is based on its unit value, has been set at 0% of the unit value from 2017 onwards, so it is no longer necessary to declare these values.

Interest on debt or for mortgages in connection with the acquisition of a primary residence remains deductible, however. As long as the property has not yet been occupied, the interest expense is fully deductible.

If the property is (intended to be) occupied (fixing of the rental value), interest liabilities are deductible in full for the year in which the rental value is determined and for the first year thereafter, and the deductibility of interest then varies according to the date of the value setting/right of use of the property by the owner and to the number of people in the household:

- €4,000 for the second year following the fixing and the following three years;
- €3,000 for the following five years;
- €2,000 for the following years.

These respective ceilings are increased by their own amount for the spouse and for each child entitled to tax relief.

In order to benefit from this deduction of passive interest, the taxpayer must submit a request, together with supporting documents issued by the credit institution granting the loan, when filing his annual income tax return. If not subject to assessment, the taxpayer may request regularisation at the end of the year, when the amount actually due as interest is known. Non-residents must apply for tax assimilation.

3.3. Miscellaneous net income (boxes 1101 to 1173)

Net miscellaneous income includes income, less expenses where applicable, which is not included in the other income categories and which includes income from the sale of real estate belonging to private assets or income from services not included elsewhere, or even reimbursements resulting from an old-age pension contract.

> Income from the sale of a major investment

Income from the sale of shareholdings of any kind in "collective investment schemes" more than six months after their acquisition; these are taxable when a seller has had a significant direct or indirect shareholding (more than 10% of the capital of a "company" together with his or her spouse or partner and minor children, at any time during the five years preceding the sale). Possible deduction of €50,000, increased to €100,000 in case of collective taxation, if a taxpayer has not already benefited from this type of deduction during the previous ten years, in which case the allowance is reduced, without any loss being incurred.

> Speculation gains (form 700)

Unless the property is the taxpayer's principal residence, this involves gains realised on the sale of recently acquired property (within two years for buildings, six months for other property) or on a disposal that precedes an acquisition (i.e. selling a property that is not yet owned). Taxable if the profit exceeds a total annual amount of €500.

Sale of a primary residence?

Profits from the sale of the taxpayer's primary residence are not taxable. A dwelling owned by a taxpayer constitutes his or her primary residence if it has been his or her usual residence since the acquisition or completion of the dwelling or for at least five years preceding the sale.

This five-year condition may not be met if the house is sold for family reasons or for a change of residence in connection with the profession of the taxpayer, his spouse or partner.

Where the taxpayer owns a dwelling which he does not occupy himself, it is considered a principal residence if the taxpayer simultaneously meets the following three conditions: he occupied this dwelling

following its acquisition or completion; he does not own another dwelling; he abandoned this dwelling for family reasons or because of a change of residence in connection with his or his spouse's/partner's profession.

A dwelling previously occupied by the taxpayer is also considered to be a principal residence if the sale of this dwelling takes place in the year following the transfer to a new dwelling. The principal residence also includes the normal outbuildings of the building (located near the building and necessary for the dwelling: garages, cellars, attics, terraces) and the land forming the basis of the building (including the undeveloped elements located near the building and necessary to it).

> Income from the sale of real estate (real estate capital gains; model 700)

Gains from the sale of a building are taxable if the sale takes place more than two years after the acquisition or construction of a building, unless the building is the taxpayer's primary residence. Possible allowance of €50,000, increased to €100,000 in case of collective taxation, if the taxpayer has not already benefited from this deduction during the previous ten years, in which case the deduction is reduced.

It should be noted that if the profit comes from the sale of built property acquired by inheritance in the direct line (i.e. inherited from one's parents) and that it was used by the taxpayer's parents or spouse/partner as their primary residence at any time prior to their death, a deduction of €75,000 is allowed against capital gain charges. This is to respect the direct line: if, for example, a taxpayer receives the former principal residence of their parents from their brother, the possible profit from the sale will be fully taxable. This deduction will be applied before the deduction for the sale of property described above. In the case of collective taxation, each of the spouses is entitled to a deduction of €75,000 for their own inherited share. The same applies to children who have inherited their parents' primary residence.

Example

In 2011, a single person realised a capital gain of €30,000 on the sale of a building. This capital gain, which is less than the maximum allowance of €50,000, is entirely tax-free. In 2014, that person recorded capital gains of €25,000 on the sale of another building. The person can still take advantage of the remaining part of the allowance, which amounts to €50,000 – €30,000 = €20,000. The €5,000 in excess of this allowance will be subject to tax.

In 2022, the person will again be entitled to an allowance of €50,000 – €20,000 (allowance realised in 2014) = €30,000, since the allowance from 2011 was granted more than 10 years ago. If the person does not record any capital gains between 2022 and 2024, he will be entitled to the full allowance of €50,000 from 2025.

> Income not included in another income category

This is miscellaneous income from, for example, occasional brokering, occasional work, the use of chance inventions or secret commissions. This type of income is not taxable if it is less than €500 per year. Amounts paid to presidents, secretaries and assessors of polling stations are also considered as miscellaneous income.

> Withdrawal of savings in the context of an old-age pension contract ("Third pillar" pension)

- Section D. of the declaration: capital withdrawal or annual withdrawals of accumulated savings⁴; early withdrawal of the accumulated savings in case of disability or serious illness of the policyholder or in case of death of the latter (to the entitled party). It should be noted that capital withdrawal, the restitution of accumulated savings or early repayment of accumulated savings in case of disability or serious illness are taxed more favorably than normal.
- Section E. of the declaration: early repayment of the accumulated savings as well as the capital constituting the life annuity paid in advance become taxable at the taxpayer's normal rate, since this is an early termination of the contract without due cause.

⁴ Possible immediate payment at maturity of half of the accumulated savings, the other half being paid out in monthly annuities (or even in annual withdrawals) up to the age of 75; the first half of the capital paid out must be declared under miscellaneous income.

3.4. Exceptional income (boxes 1201 to 1222)

The heading "Exceptional income" groups together some of the incomes that fall within the eight existing income categories, including those from salaried employment, for which special tax rates apply.

For example, income from employment which is economically related to a period of more than one year and which becomes taxable in a single tax year; periodic remuneration from employment which relates to a pay period before or after the tax year and which becomes taxable in the tax year concerned; the repayment in the form of capital in execution of a pension contract; the early withdrawal of savings accumulated under a pension contract in the event of the death, disability or serious illness of the subscriber; income from sale of real estate assets more than two years after their acquisition or construction; income from the sale, more than six months after their acquisition, of holdings of any kind in collective organisations where the seller has had a significant holding; cash benefits for illness, maternity and occupational accident/sickness which replace income relating to a period other than the tax year, etc.

For example, exceptional salaried income will be taxed according to the deferral method (max. 24% of such income) or gains from the sale of a property or a major shareholding at 25% of the overall tax rate of the taxpayer concerned.

4. SPECIAL EXPENSES (BOXES 1301 TO 1639)

"Special expenses", insofar as they are not employment-related costs, will reduce the tax rate attributable to you by reducing your taxable income.

There are two ways of deducting any special expenses: either by applying the minimum rate of €480 (€960 in the case of collective taxation of employed spouses/partners) for a full year of tax liability, even if your special expenses do not reach this minimum, or by applying your actual special expenses that exceed this minimum, within the limits of the legal ceilings.

For resident who have not entered these expenses on their tax form, it is possible to rectify the taxation by means of a settlement or assessment. If non-residents benefit from the minimum flat rate, they can claim their actual expenses as residents do, provided they have achieved tax assimilation.

4.1. Special expenses covered by the minimum lump sum

- Permanent annuities and charges that the taxpayer may have to pay, including a divorced spouse (alimony).

Such expenses may be deductible up to an annual amount of €24,000 and only in the case of mutual consent or joint application by a debtor and a beneficiary if divorce was recognized before 1998. Other annuities and permanent charges due by virtue of a special obligation (formal contract or court decision) are deductible as special expenses if they have no economic connection with exempt income. Annuities or permanent charges made voluntarily between ascendants and descendants are only deductible if they are stipulated when property is transferred.

- Voluntary contributions to a social security institution (sickness, pension) for continuous, voluntary or optional insurance and for the purchase of periods.

These voluntary social contributions are fully deductible.

- Interest on a consumer loan: purchase of a car, furniture, shares or financing of personal expenses, etc. The interest expense must not be economically related to exempt income, as interest due to late payment of tax is not deductible as a special expense.

Similarly, certain premiums and contributions for personal insurance (life, death, accident, civil and family liability, mutual aid), whether periodic or one-off, if the policyholder (contracting party) is the taxpayer himself or a person who is taxable collectively with him and if the insured person opening the benefit of the contract (accident, death, life, etc.) either the is taxpayer himself, his spouse/partner or one of his children, entitle him to a tax reduction. The beneficiary may be any person without this constituting an obstacle to the deductibility of the premiums. The taxpayer may have all three attributes at the same time. The surrender (or transfer) of an insurance policy which has the effect of removing the deductibility of the previously deducted premiums or contributions gives rise to a tax adjustment.

Premiums and contributions paid as well as debit interest can be deducted up to a maximum amount of €672 per year per person in a household for both types of special expenses together. Accordingly, for a household consisting of two spouses/partners who are collectively taxable and one child who is entitled to tax relief, the deductible limit amounts to $(3 \times 672) = €2,016$, either for debit interest alone, or exclusively for insurance premiums and contributions, or for both types of premia at the same time.

The single premium for a life insurance policy covering outstanding amounts owed (boxes 1472 to 1477) guaranteeing the repayment of a mortgage loan for personal housing needs (decreasing capital term insurance on death) increases by the amount of this premium the ceiling for insurance premiums deductible as special expenses. However, this increase may not exceed €6,000 plus €1,200 for each child entitled to tax relief. A further increase, which may not exceed 160% of the first increase, exists for taxpayers aged over 30 at the time of taking out such insurance (possibly depending on the older spouse when the policy is taken out by two spouses/partners taxed collectively or when it covers both of their lives), although each child may only trigger an increase which may be used at the discretion of the taxpayer to increase the ceiling applicable to one or other of the spouses or partners.

Example

A married taxpayer with two children paid a single premium of €10,000 for a decreasing sum term life insurance policy on his life to cover the repayment of a loan taken out for the construction of a house. This person is 39 years old.

The normal ceiling is $4 \times 672 = €2,688$ which can be used to deduct the single premium unless it is already used as a ceiling for other insurance premiums or contributions.

The deductible limit for the single premium will be:

Surcharge: $6,000 + 2 \times 1,200 = €8,400$

Surcharge: $8\% \text{ of } 8,400 \times (41 - 30) = €7,392$

The taxpayer can deduct an amount of €15,792 ($8,400 + 7,392$) as a single premium. As the maximum bonus is higher than the single premium, the taxpayer can only deduct the amount of the single premium actually paid. If the premium had amounted to €17,000, for example, he could have covered the non-deductible part of $(17,000 - 15,792) = €1,208$ with the normal ceiling of €2,688, provided that this amount had not already been reached by the deductible periodic premiums and contributions.

- Periodic or single premiums paid under an old-age pension scheme contract (Art. 111bis), provided that the minimum duration of the policy is 10 years with maturity at the earliest at the age of 60 of subscribers and at the latest at the age of 75. If the pension plan is discontinued, except for reasons of death, disability or serious illness, the capital withdrawn will be taxed together with the policyholder's other income. However, the policyholder may stop payments into an existing pension policy at any time, or even sign a new policy with the same or another provider.

The deductibility of premiums is limited to € 3,200 per year, regardless of the age of the taxpayer at the beginning of the tax year.

However, the age limit for taking out a contract is the day before the subscriber's 65th birthday and at the latest 75 years of age for the payment of the accumulated savings.

When spouses/partners who are taxable collectively take out an old-age pension contract, the deductible amount is calculated individually for each spouse/partner.

At maturity, savers have the option of withdrawing accumulated savings in the form of either lump sum or a life annuity payable monthly, or in a combined manner at a more favourable tax rate than the taxpayer's normal rate.

Thus, the taxpayer opting for the full redemption of accumulated savings as capital will be taxed at half the overall rate for this type of exceptional income (LIR articles 99, no. 4 and 131, no. 1, Letter c). If the taxpayer opts for redemption of accumulated savings in the form of a life annuity payable monthly, he will be taxed on the non-exempt portion of 50% of the amount of the monthly life annuities resulting from his pension contract (LIR articles 96, para. 1 and 115, no. 14a). If the taxpayer opts for the redemption of accumulated savings in a combined manner (annuity and capital), the taxation of the capital and the annuity will be carried out according to the respective modalities shown above.

The taxation of the early repayment of these savings (before maturity of the contract) is carried out as miscellaneous (ordinary) income.

It should be noted that the Luxembourg sub-account of a Pan-European Personal Pension (PEPP, article 111ter, boxes 1518-1531) is aligned with the tax treatment of pension contracts based on national rules only (article 111bis).

- Contributions to approved building societies for the purpose of financing the construction, acquisition, maintenance, repair or conversion of a flat or house used for personal living purposes, including the price of the land, as well as a solar photovoltaic or thermal installation integrated into such a flat or house. Contributions for the repayment of previous obligations which fulfil the above-mentioned conditions are also deductible (e.g. a bank loan refinanced by the building society). As a reminder, the interest on these savings is exempt from tax.

Termination of the contract during the savings period (except in the case of death or permanent incapacity to work) or failure to use the funds paid out at the end of the contract for the purposes stipulated in the contract (tax-favoured purposes) also deprives the previously deducted premiums of their deductibility and gives rise to an adjustment of taxation to the taxpayer's detriment. However, this does not occur in two cases: due to the death or permanent incapacity to work of the policyholder or if the policy is cancelled more than ten years after the subscription.

Where funds from building society contracts, irrespective of when they were underwritten, are not used for tax-privileged purposes, no further deduction for contributions under a building society contract is allowed from the following tax year.

Contributions may be deducted up to a maximum of €672 per year per person in the household. Thus, for a household consisting of two spouses/partners who are collectively taxable and one child entitled to tax relief, the deductible limit is $(3 \times 672) = €2,016$. However, if the youngest adult subscriber is between 18 and 40 years of age at the beginning of the tax year, the limit is €1,344 (subject to increases).

Age	Maximum annual amount
from 18 to 40 years old	€1,344
in other cases	€672

4.2. Entry of expenditure not covered by the minimum flat rate

- The share of mandatory employee contributions payable by the insured to a Luxembourg or foreign social security institution (pension and health funds) that are fully deductible as special expenses.
- Personal contributions to a supplementary pension scheme set up by your employer or to a foreign scheme (Second pillar); the maximum deductible amount is €1,200 per year.
- Certain donations are deductible, in particular those paid to organisations recognised as being of public utility, if the annual total is at least equal to €120 and does not exceed 20% of your total net income or €1 million (e.g. approved non-governmental organisations in the field of development cooperation). For taxpayers who have to file a tax return, the deduction of donations takes place at that time. Other taxpayers, who are taxable only through withholding tax, can deduct them through the annual tax statement. Tax assimilation is required for non-residents.
- Under certain conditions, you can deduct previous losses from a commercial enterprise, an agricultural or forestry operation or the exercise of a liberal profession.

5. EXCEPTIONAL EXPENSES (BOXES 1701 TO 1741)

Deductions are a tax reduction instrument designed to take account of the expenses incurred by a taxpayer in comparison with those who do not have such expenses. The deduction takes account of these expenses by reducing the taxable base within the limits, in particular flat-rate limits, determined by law.

5.1. Application for a deduction against taxable income for exceptional expenses

The deduction for exceptional expenses allows taxpayers to account for exceptional expenses such as sickness costs not reimbursed by the health insurance fund, maintenance of destitute parents, alimony payments (not recognised as special expenses), divorce costs and a range of other costs. Charges and expenses that are deductible as special expenses or employment-related expenses cannot be considered as exceptional expenses.

These exceptional expenses are eligible for a tax deduction if they are unavoidable for material (such as natural disasters), legal (to include divorce) or moral reasons (to help needy relatives) and if they are not normally borne by the majority of taxpayers who are in a similar situation with regard to their income and wealth as well as their family situation.

You tick the first box if you wish to get a deduction for exceptional expenses. These expenses will then be compared with your normal estimated tax burden as a percentage of your taxable income for the year (the same expense may therefore be considered exceptional for one taxpayer and ordinary for another).

For taxable income	For a taxpayer in the following the tax classes						
	1	1 ⁵ , 1a or 2					
		number of child tax relief items					
		0	1	2	3	4	5
less than €10,000	2%	0%	0%	0%	0%	0%	0%
from €10,000 to €20,000	4%	2%	0%	0%	0%	0%	0%
from €20,000 to €30,000	6%	4%	2%	0%	0%	0%	0%
from €30,000 to €40,000	7%	6%	4%	2%	0%	0%	0%
from €40,000 to €50,000	8%	7%	5%	3%	1%	0%	0%
from €50,000 to €60,000	9%	8%	6%	4%	2%	0%	0%
more than €60,000	10%	9%	7%	5%	3%	1%	0%

The excess of expenses over the normal charge can be deducted from taxable income.

Taxpayers have two options: they can claim their actual expenses or get a flat-rate deduction for certain expenses.

5.1.1. Actual costs for exceptional expenses

If they are not automatically subject to tax assessment, i.e. if they do not have to file a tax return, resident employees or pensioners can have deductions entered on their withholding tax card if the exceptional expense is clearly determined for the entire tax year (e.g. maintenance payments).

5 With at least one tax reduction for dependent children; this 50% tax reduction counts as 100% tax reduction.

Example

A Class 2 taxpayer with a tax credit for one child and annual taxable income of €45,000 has unreimbursed sickness costs of €3,000. His normal expenses amount to 5% of €45,000 = €2,250. He will therefore be able to deduct $(3,000 - 2,250) = €750$ as an exceptional expense.

For all other expenses (such as a surplus for sickness costs), taxpayers must request an end-of-year adjustment via the adjustment procedure or by filing a return. Non-residents must apply for tax assimilation.

The following expenses may be deducted as exceptional expenses where appropriate, but without benefiting from the second flat-rate allowance option described below:

- sickness costs not covered by a health fund;
- costs of a health treatment are normally not deductible, unless the therapy is the only means of restoring the health or improving the state of health of a taxpayer;
- dietary regimes resulting in excess food expenditure. The taxpayer must submit a medical certificate. The taxpayer must prove the actual expenses or claim a flat rate deduction of about €30 per month (liver, gall bladder or kidney disease) or about €42 per month (tuberculosis, diabetes, multiple sclerosis);
- expenses relating to a child for whom the taxpayer is entitled to a child tax reduction or a deduction for children who are not part of the taxpayer's household if these expenses exceed the usual standards, such as if they entail long and expensive medical treatment of the child or costs of placing the child in a special institution (for the blind, deaf and dumb, mentally handicapped children, etc.). The costs of maintenance, education and vocational training of a child entitled to tax relief (either part of the taxpayer's household or not part of the taxpayer's household, but whose maintenance, education or vocational training costs are mainly borne by the taxpayer) do not allow for a deduction for exceptional expenses. These expenses may be taken into account for the taxable income deduction for the care of children not belonging to a taxpayer's household;
- the maintenance of relatives, in particular young relatives, with insufficient resources who are not entitled to child tax relief or a deduction for children not belonging to a taxpayer's household (such as a brother, sister, nephew, niece or some other young persons on an exceptional basis), provided that there are no other persons with the necessary means who should assume these obligations under the provisions of the Civil Code, and taking into account any resources of the relative and within the limits set by law (a monthly ceiling of €575 for the first relative aged 18 or over and €330 for each additional relative aged 18 or over or €230 for each relative aged under 18);
- divorce costs;
- annuities and permanent charges fixed by a court decision in the context of a divorce judgment before 1 January 1998, unless a joint application is made by the debtor and the beneficiary of the annuity which would make them deductible as special expenses. The annuity would then be taxable to the beneficiary;
- maintenance paid in certain cases provided for in the civil code (descendants and ascendants, sons-in-law and daughters-in-law, fathers-in-law and mothers-in-law, adoptees and adopters, spouses, even if legally separated). In general, these allowances are not deductible as exceptional expenses; they must meet the general conditions for exceptional expenses and the beneficiary must not have the resources to assume these expenses himself. This may involve the payment of an annuity or the payment of the costs of a stay in a nursing home, or even the taking in of a child into the debtor's household, in which case the ceilings described under "Maintenance of relatives" above are applicable;
- funeral expenses not covered by a death benefit fund or the deceased's assets;
- the costs of a trial for intentional offences in the event of a conviction, excluding criminal cases.

5.1.2. Flat-rate deductions (boxes 1708 to 1741)

Some expenses may benefit from a flat-rate deduction, regardless of the normal tax burden.

It is not possible to combine a flat-rate deduction with a deduction not based on a flat rate for the same expenses, as the expenses can only be deducted once, either in the flat-rate form or under the common system of actual expenses.

> Deduction for disabled persons or infirmities

Assume you wish to claim a lump-sum deduction for expenses related to your state of invalidity or disability. This allowance will depend on the degree of reduction in your capacity to work and varies from €150 to €1,455 per year, depending on the degree or nature of the incapacity.

However, if a taxpayer considers the flat-rate deduction insufficient, he can claim the actual expenses above (in relation to the normal expense) in accordance with the procedure for actual exceptional expenses described.

> Deductions for domestic help, for assistance and care due to the state of dependence and for childcare costs

You can claim a lump-sum deduction for domestic expenses, childcare expenses or the costs of care and assistance. These costs cannot be deducted under the common system.

This deduction is intended to cover costs incurred by taxpayers in carrying out domestic work in their home (domestic services), in providing care for taxpayers, their spouse or a dependent descendant (aid and care expenses) and in providing care in a nursery or day-care centre for a child under 14 years of age (unless the child is disabled) for whom the taxpayer obtains a child tax reduction.

The flat-rate deduction here amounts to a maximum of €5,400 per year and €450 per month, as it is limited to the expenses actually incurred per year and per month. For example, a taxpayer who can prove expenses of €500 in January and €200 in February can deduct €450 in January and €200 in February. If all three types of expenses are combined, the deduction is granted only once.

If the taxpayer applies for the flat-rate deduction, he can no longer claim any actual domestic, care or childcare expenses in excess of the flat-rate deduction for the purpose of calculating the allowance in comparison with the normal tax burden.

> Deduction for children who were not part of the taxpayer's household

If you have incurred expenses because of children who were not part of the household, you can claim a deduction of up to €4,422.

The child allowance takes into account expenses incurred by the taxpayer for children who are not part of the taxpayer's household (descendants or stepchildren even in the event of dissolution of the marriage, adopted children and their descendants and children taken in permanently) but who are mainly maintained and educated by the taxpayer. These expenses cannot be deducted as exceptional expenses.

This deduction is granted only if both parents of the child, who are not married, do not share a common dwelling with their child. Otherwise, although they form two separate tax households, the unmarried couple cannot make use of this deduction.

In particular, the following are regarded as maintenance costs, education costs or costs relating to vocational training studies: food, clothing and accommodation costs; medical care costs; normal costs for leisure activities, gifts, pocket money, etc.; school and apprenticeship costs.

The child must be under 21 years of age at the beginning of the tax year or, if at least 21 years of age, must have been in continuous full-time vocational education and training for more than one year. The child is deemed to be maintained and educated mainly by the taxpayer if the taxpayer contributes more than 50% of the maintenance, education or study costs.

The costs and expenses actually incurred for the child shall not exceed €4,422 per year and per child. Since it is difficult to prove that a taxpayer contributes more than 50% of the maintenance and education costs, it is advisable to prove that the costs and expenses amount to at least the €4,422 limit.

Taxpayers may only invoke this allowance if their involvement is necessary. The intervention of a person other than the mother and father is not necessary if they have the necessary resources to fulfil their obligations. If a child's personal income exceeds 60% of the minimum social wage, the taxpayer's involvement is not considered necessary either.

If there are several children, the allowances are added together to determine an annual limit. For two children, the taxpayer can deduct $2 \times 4,422 = €8,844$, even if the expenses are not spread uniformly between the two children.

This deduction can be claimed by non-residents without any condition regarding assimilation.

> The non-occupational deduction

As a reminder, the non-occupational deduction was introduced in order to take into account the additional expenses of spouses/partners who both have a professional occupation and therefore to increase the attractiveness for spouses/partners to be employed.

The extra-occupational deduction of €4,500 applies to the couple and is automatically deducted from married/partnered taxpayers who are taxed collectively. It should be noted that spouses who apply for individual taxation each retain half of the benefit of this allowance.

Box 860 should only be ticked if one of the spouses has been receiving pension income for less than three years.

6. VARIOUS REQUESTS (BOXES 1801 TO 1829)

Taxpayers with self-employed income can claim various tax credits and tax deductions.

Any tax credits for tax table (CIB) or for overtime (CIHS) should be ticked here.

7. WITHHOLDING TAXES (BOXES 1901 TO 1914)

Withholding taxes already retained from income must also be indicated here; amounts withheld by an employer or the National pension insurance fund must be entered for employees and pensioners.

8. TAXABLE INCOME 2024 (BOXES 2001 TO 2038)

Finally, you still need to summarise taxable income. Under this heading, you enter the various types of income that you received during the year and add them up. After deducting special expenses, you obtain taxable income from which the Administration may, if necessary, deduct a number of tax allowances before applying the annual personal income tax scale.

Do I have to submit a tax return?

Can I claim certain costs and expenses, and under what conditions?

Is all of my income from paid employment taxable?

This publication from the Chamber of employees (CSL) deals with employees' tax returns. It is a guide designed to help employees through this annual administrative process.

To familiarize salaried taxpayers with their tax returns and make this formality easier for them, this publication explains, heading by heading, the essential concepts relating to the income that concerns the greatest number of wage earners.

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