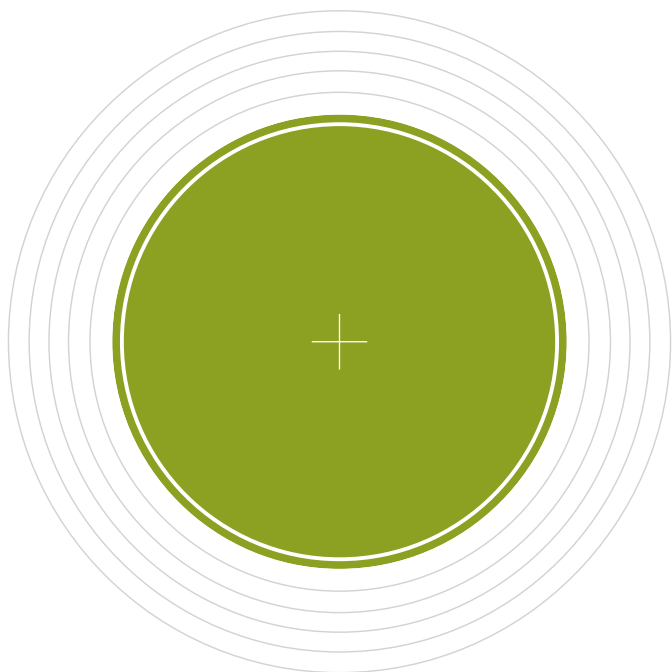


2013



LUXEMBOURG :
THE TAXATION
OF INDIVIDUALS



TAX CLASSES

	WITHOUT CHILDREN	WITH DEPENDENT CHILDREN	AT LEAST 64 YEARS ON 1 ST JANUARY
SINGLE	1	1a	1a
+ MARRIED/ PARTNER	2	2	2
++ SEPARATED	1	1a	1a
++ DIVORCED	1	1a	1a
++ WIDOWED	1a	1a	1a

- + Partners having concluded a partnership contract (existing during the entire tax year) who ask for joint taxation (through the filing of a tax return). Non-resident taxpayers may only claim this benefit by opting to be assimilated to resident taxpayers.
- ++ The class 2 remains applicable to the taxpayers for the 3 years after the decease or the decision authorising the separation or pronouncing the divorce.

Non-residents married taxpayers earning more than 50% of their professional income taxable in Luxembourg are classified into tax class 2 (otherwise, they are classified into tax class 1a).

TAX RATES

MARGINAL TAX RATE

	42.80 % INCLUDING THE UNEMPLOYMENT FUND CONTRIBUTION OF 7 %	43.60 % INCLUDING THE UNEMPLOYMENT FUND CONTRIBUTION OF 9 %
	Applicable to the taxable income (€)	Applicable to the taxable income (€) higher than
CLASS 1	from 100,050 to 150,000	150,000
CLASS 1A	from 35,300 to 150,000	150,000
CLASS 2	from 200,050 to 300,000	300,000

LUMP SUM TAX RATES ON THE SECOND TAX CARD

TAX CLASS 1	33 %
TAX CLASS 1A	21%
TAX CLASS 2	15%

- Withholding tax rate on dividends: 15.00%
- Withholding tax rate on interest: 10.00%
- Withholding tax on director's fees: 20.00%

AVERAGE TAX RATES ⁺

TAXABLE INCOME (€)	TAX CLASS 1	TAX CLASS 1A	TAX CLASS 2
30,000	10,24%	4,15%	1,38%
60,000	24,68%	22,93%	10,74%
90,000	30,36%	29,55%	19,33%
120,000	33,38%	32,86%	26,00%
150,000	35,26%	34,85%	29,36%
180,000	37,20%	36,85%	31,60%
210,000	38,12%	37,82%	32,18%

⁺ Including the unemployment fund contribution of 7% or 9% and the tax credit of €300 for professional income.

TAX RELIEF FOR DEPENDENT CHILDREN

Tax relief of €76.88/month or €922.50/year per dependent child granted as follows:

CHILDREN QUALIFYING FOR FAMILY ALLOWANCES	Tax bonus paid by the CNPF to the beneficiary of the family allowances
CHILDREN NOT QUALIFYING FOR FAMILY ALLOWANCES	Tax relief through the filing of a tax return/annual tax adjustment
RESIDENT STUDENTS PURSUING HIGHER EDUCATION STUDIES	Tax bonus is included in the financial aid granted by the State
NON-RESIDENT STUDENTS PURSUING HIGHER EDUCATION STUDIES	Tax relief through the filing of a tax return/annual tax adjustment

TAX CREDITS

Tax credit for employees (CIS) and for retired individuals (CIP): €300/year (€25/month)

Each month, the CIS is automatically:

- Either deducted from the wage/pension withholding tax
- Or added to the net salary/pension if the amount of the withholding tax is null or less than €25

Tax credit for self-employed individual (CII): €300/year ⁽⁰¹⁾

Tax credit for single parent families (CIM): €750/year (€62.50/month) ⁽⁰²⁾

○ INCOME RELATED EXPENSES

	ANNUAL LUMP SUM
INCOME RELATED EXPENSES FOR EMPLOYEES	€540
TRAVEL EXPENSES (DEPENDING ON THE DISTANCE BETWEEN HOME AND PLACE OF WORK)	From €0 to €2,574
INCOME RELATED EXPENSES FOR RETIRED INDIVIDUALS	€300
EXPENSES RELATED TO MOVABLE INCOME	€25 ⁽⁰³⁾

○ SPECIAL EXPENSES

A lump sum deduction of €480 ⁽⁰⁴⁾ is deductible unless the actual expenses are higher (see below).

○ SPECIAL EXPENSES IN PLACE OF THE LUMP SUM DEDUCTION OF €480

	ANNUAL MAX. DEDUCTION
DEBT INTEREST	€336 ⁽⁰⁵⁾
PAYMENTS TO BUILDING SOCIETIES	€672 ⁽⁰⁵⁾
INSURANCE PREMIUMS FOR LIFE, DEATH, ACCIDENT, DISABILITY, SICKNESS OR CIVIL LIABILITY	€672 ⁽⁰⁵⁾
SINGLE DEATH INSURANCE PREMIUM RELATED TO A MORTGAGE LOAN FOR THE PERSONAL RESIDENCE BASE DEDUCTION OF €672 IS INCREASED BY:	€6,000 ⁽⁰⁶⁾

For taxpayers over 30 years, the additional deduction of €6,000 is increased by 8%/year over 30, with max. 160% of the additional deduction.

INSURANCE PREMIUMS FOR DAILY ALLOWANCE IN CASE OF DISABILITY (FOR SELF EMPLOYED INDIVIDUALS) BASE DEDUCTION OF €672 IS INCREASED BY:	€1,500 ⁽⁰⁷⁾
ALIMONY PAID TO AN EX-SPOUSE	€24,000

Old-age insurance premiums⁽⁰⁷⁾. The deduction varies according to the age of the subscriber (from €1,500 to €3,200).



SPECIAL EXPENSES IN ADDITION TO THE LUMP SUM DEDUCTION OF €480

ANNUAL MAX. DEDUCTION

COMPULSORY CONTRIBUTIONS TO LUXEMBOURG OR FOREIGN SOCIAL SECURITY REGIME (DEPENDENCE INSURANCE EXCLUDED)	No ceiling
CONTRIBUTIONS TO THE MUTUAL INSURANCE (VOLUNTARY REGISTRATION OF THE SELF-EMPLOYED FOR DISABILITY RISK)	No ceiling
PERSONAL CONTRIBUTIONS TO EMPLOYER'S SUPPLEMENTARY PENSION SCHEME IN LINE WITH THE LAW OF 8.06.1999	€1,200
ELIGIBLE DONATIONS (MINIMUM AMOUNT: €120/YEAR)	20% of the taxable income or €1,000,000
LOSSES CARRIED FORWARD	Under conditions



SOCIAL SECURITY RATES

	EMPLOYEE'S PART	EMPLOYER'S PART
+ PENSION INSURANCE	8%	8%
+ HEALTH INSURANCE	3.05%	3.05%
++ DEPENDENCE INSURANCE	1.40%	N/A
+ HEALTH AT WORK	N/A	0.10%-0.11% +++
+ ACCIDENT INSURANCE	N/A	1.10% (unique rate)
MUTUAL INSURANCE	N/A	0.42% to 2.64% ++++

- + The contributions are levied up to the annual ceiling of €112,450.28 (index 756,27)
- ++ The dependence insurance is levied at a fixed rate of 1.40% computed on the gross salary (without ceiling) after deduction of a monthly allowance
- +++ For the companies registered with the health services STI/STM
- ++++ The contribution rate varies according to the absenteeism's rate of the employees within the company

EXTRAORDINARY CHARGES

ANNUAL MAX. DEDUCTIBLE AMOUNT

ALLOWANCE FOR EXPENSES TO SUPPORT CHILDREN NOT LIVING IN THE TAXPAYER'S HOUSEHOLD (E.G. ALIMONY)	€3,480 per child ⁽⁰⁸⁾
ALLOWANCE FOR HOUSEKEEPING (DOMESTIC STAFF DIRECTLY HIRED BY THE TAXPAYER OR VIA A SERVICES COMPANY) AND CHILD MINDING EXPENSES	€3,600
VENTURE CAPITAL INVESTMENT ALLOWANCE	30% of the taxable income
ALLOWANCE FOR TOTAL SUPPORT OF CLOSE RELATIVES LIVING IN THE TAXPAYER'S HOUSEHOLD	variable according to the age of the close relative

TAX EXEMPTIONS

- Salary compensation for overtime (not applicable for higher ranking employees): **exemption of the base salary and the salary supplement.**
- Salary compensation for Sunday/public holiday/night work: **exemption of the salary supplement.**
- Professional travel expenses with private car (travels between home and place of work excluded): **maximum exemption of €0.40 per km.**
- Movable income taxable through the filing of a tax return: **maximum exemption of €1,500 /year ⁽⁰³⁾.**
- Credit interest related to a building savings scheme recognized in Luxembourg: **total exemption.**
- Dividends income received from fully taxable Luxembourg or EU resident companies or corporations resident in a State with which Luxembourg has concluded a double tax treaty: **exemption up to 50%.**
- Life annuity resulting from an old-age insurance contract: **exemption up to 50%.**

SPECIAL TAX REGIME FOR THE EXPATRIATES

Under certain conditions, a tax exemption can be granted, upon request, for the expenses incurred in the framework of the expatriation of the highly skilled and specialized employees.

This regime entered into force on 1st January 2011. The application has to be filed within 2 months of their arrival in Luxembourg.



BENEFITS IN KIND

HOUSING

Taxable BK: 75 % of the rent provided that the lease agreement is concluded by the employer.

COMPANY CAR

(used for private purposes)

- Taxable BK: 1.5%/month (18%/year) of the acquisition cost of the new car (including options and VAT), reduced by the discount if any.
- Additional taxation at the time of the repurchase by the employee if the market value of the car, at the time of the repurchase, exceeds the acquisition price paid by the employee.

INTEREST SAVING (LOAN WITH A REDUCED INTEREST RATE) OR INTEREST SUBSIDY

Taxable BK for the interest economy: 2 % less the rate offered by the employer.

Taxable BK for the interest subsidy: nominal amount of the interest borne by the employer.

The following tax exemptions apply:

- Mortgage loan related to the taxpayer's private home: €3,000/year (tax class 1) or €6,000/year (tax classes 1a and 2 if jointly taxable).
- Other loans: €500/year (tax class 1) or €1,000/year (tax classes 1a and 2 if jointly taxable).

Interest saving/interest subsidy is also exempted from social security contributions.

LUNCH VOUCHERS (NOMINAL VALUE OF €8,40)

Tax exemption: €5,60 per voucher. Total social security exemption.



SAVING INTEREST

LUXEMBOURG RESIDENTS

The Luxembourg paying agent must withhold at source a tax of 10 % on certain interest income (savings accounts, fixed-term accounts, bonds, etc.) This withholding is a final tax for the interest related to the private wealth.

When the paying agent is established in the EEE or in a State with which the Luxembourg has concluded an agreement, the Luxembourg resident taxpayer can also opt for the final withholding tax of 10 % by filing the appropriate form.

NON-RESIDENTS

The Luxembourg paying agent must withhold at source a tax of 35 % since the 1st July 2011 on certain interest paid to the resident taxpayers in another EU Member State (or in certain non-EU Member States) unless they opted for the exchange of information or provided the paying agent with a certificate issued by the tax authorities of their home country.



CAPITAL GAINS ON THE DISPOSAL OF SHAREHOLDINGS / WINDING-UP BONUS

Capital gains correspond to the difference between the sale price and the purchase price eventually revalued.

	SHAREHOLDING HELD FOR LESS THAN 6 MONTHS	SHAREHOLDING HELD FOR MORE THAN 6 MONTHS
SHAREHOLDING ≤10% OF THE COMPANY'S CAPITAL	Taxation at the ordinary progressive rates (max. 42.80% or 43.60%) + dependence insurance contribution of 1.4%	Exemption
SHAREHOLDING >10% OF THE COMPANY'S CAPITAL (SIGNIFICANT SHAREHOLDING)	Taxation at the ordinary progressive rates (max. 42.80% or 43.60%) + dependence insurance contribution of 1.4%	Taxation at the 1/2 global rate (max. 21.40% or 21.80%) + dependence insurance contribution of 1.4%. Allowance ⁺ of €50,000 (doubled for the spouses/ partners jointly taxable)

- ⁺ The same allowance applicable to capital gains on the disposal of significant shareholding and to capital gains on the disposal of real estate is renewable every 10 years.



TAXATION OF REAL ESTATE

DEBT INTEREST PAID RELATED TO THE MAIN RESIDENCE:

	ANNUAL MAX. DEDUCTIBLE AMOUNT
2 YEARS PRECEDING THE OCCUPATION OF THE PROPERTY	unlimited
FOR THE YEAR OF OCCUPATION AND THE 5 YEARS THEREAFTER	€1,500
FOR THE 5 YEARS THEREAFTER	€1,125
FOR THE FOLLOWING YEARS (AFTER 10 YEARS)	€750

CAPITAL GAINS ON THE DISPOSAL OF REAL ESTATE

CAPITAL GAIN REALIZED ON THE MAIN RESIDENCE	Exemption
CAPITAL GAIN REALIZED LESS THAN 2 YEARS AFTER THE ACQUISITION	Taxation at the ordinary progressive rates (max. 42.80% or 43.60%) + dependence insurance contribution of 1.4%
CAPITAL GAIN REALIZED MORE THAN 2 YEARS AFTER THE ACQUISITION	Taxation at the 1/2 global rate (max. 21.40% or 21.80%) + dependence insurance contribution of 1.4% Allowance ⁺ of €50,000 (doubled for the spouses/partners jointly taxable) An additional allowance of €75,000 is granted if the capital gain has been realized on the sale of a property inherited in direct line and if the property was the parent's main residence. This additional allowance is granted in respect of the portion inherited by each of the spouses.

- ⁺ The same allowance applicable to capital gains on the disposal of significant shareholding and to capital gains on the disposal of real estate is renewable every 10 years.

○ DEFERRED TAXATION - REINVESTMENT

It is possible to transfer the capital gain on real estate acquired through reinvestment of the sale price. The property must be acquired through reinvestment of newly constructed buildings for rental housing and located in Luxembourg.

○ NON-RESIDENTS

Non-residents can opt to be treated as Luxembourg resident taxpayers through the filing of an income tax return.

CONDITIONS	<ul style="list-style-type: none">○ At least 90% ⁽⁰⁹⁾ of their professional and non professional income are taxable in Luxembourg.○ Declaration of the household's worldwide income through the Luxembourg income tax return.
IMPLICATIONS	<ul style="list-style-type: none">○ Application of the same deductions/allowances available for the Luxembourg resident taxpayers.○ The mortgage interest related to the main residence ⁽¹⁰⁾ located abroad are taken into account (under the same ceilings as for the resident taxpayers). This contributes to reduce the tax rate applicable to Luxembourg source income.

- (01) The CII is granted through the income tax return. It is not granted if the taxpayer has received the CIS or the CIP.
- (02) The CIM is granted on request. It is reduced by 50% of the amount of all the benefits allowed to the child (apart from orphan's pensions and family benefits) which exceed the amount of €1,920.
- (03) Doubled for the married/partners couples jointly taxable.
- (04) Doubled in case of jointly taxation if each spouse earns an employee income.
- (05) Increased by the same amount for the spouse and each child.
- (06) Increased by €1,200 for each dependent child.
- (07) In case of joint taxation, the deductible amount applies for each spouse, to the extent that separate insurance contracts have been concluded.
- (08) This allowance applies in the case of a divorced couple to the parent paying alimony for the child, or in the case of a couple living in cohabitation to the parent who is granted the tax class 1.
- (09) 50% for the Belgian residents.
- (10) Applicable to rental building located abroad that generates a rental loss further to the deduction of the mortgage interest as well as the other expenses related to the building.

Last updated: April 2013

This document is intended as a general guide only. Although every effort has been made to ensure that the information printed within is correct, no guarantee can be given on its accuracy at the time of reading, or at a subsequent date, as it may be affected by future changes to the legislation or in interpretation of that legislation.



IFGROUP.LU



IF ADVISORY

121, AVENUE DE LA FAÏENCERIE

L-1511 LUXEMBOURG

BP 1832

L-1018 LUXEMBOURG

T +352 47 68 47-2

F +352 46 52 25



RAPHAËL MORTIER

Conseil PME & Dirigeants d'entreprises

T +352 47 68 47 451

RAPHAEL.MORTIER@IFGROUP.LU



JANIQUE BULTOT

Senior Manager

T +352 47 68 47 445

JANIQUE.BULTOT@IFGROUP.LU



IF EXPERTS-COMPTABLES



IF CORPORATE SERVICES



IF PAYROLL & HR



IF ONLINE



an independent member of
BAKER TILLY
INTERNATIONAL