



2017 Tax reform for individuals and new social parameters

The Law of December 23, 2016 implementing the 2017 tax reform was published in the Memorial on December 27, 2016.

The new rules enter into force on 01.01.2017, unless those related to the individual taxation and the taxation of non resident taxpayers which will enter into force on 01.01.2018.

At the same time, the minimum social wage adjustment and the application of a salary index increase will also be applicable as from 01.01.2017.

Summary

Fiscal measures entering into force on 01.01.2017

- > Abrogation of the temporary budget-balancing tax
- > Revision of the income tax scales
- > Modulation of the tax credit for employees (CIS), for pensioners (CIP) and for self-employed individuals (CII)
- > Increase in the single-parent tax credit (CIM)
- > Meal vouchers
- > Company cars
- > Final withholding tax on interest (RELIBI)
- > Abolition of the rental value on the main residence
- > Mortgage interest on the main residence
- > Rental income through social accommodation agencies
- > Exemption of the orphan's pension
- > Tax relief for sustainable transport
- > Home saving plan
- > Private old-age pension plan
- > Debt interest and insurance premiums
- > Allowance for children being not part of the household
- > Housekeeping costs
- > Liberal professions
- > Tax relief for hiring unemployed persons
- > Pluri-annual tax card

Fiscal measures entering into force on 01.01.2018

- > Introduction of the option for individual taxations
- > Taxation of the non-resident married taxpayers

Other changes applicable to salaries as from 01.01.2017

- > Increase of the Minimum Social Wage
- > Salary indexation



Fiscal measures entering into force on 01.01.2017

Main measures entering into force on 01.01.2017 are outlined below.

Abrogation of the temporary budget-balancing tax

The temporary budget-balancing tax of 0.5% introduced on 01.01.2015, levied on the professional income, replacement income as well as income from the capital, is abolished.

Revision of the income tax scales

The income tax scales are revised for reasons of tax fairness, with a reduction of the global tax burden for the households. Two new tax brackets are however added:

- Tax classes 1 and 1a (excluding unemployment fund contribution)
 - a tax bracket at 41% for taxable income between €150,050 and € 200,000
 - a tax bracket at 42% for taxable income exceeding €200,050
- Tax class 2 (excluding unemployment fund contribution)
 - a tax bracket at 41% for taxable income between €300,050 and €400,000
 - a tax bracket at 42% for taxable income exceeding €400,050

Modulation of the tax credit for employees (CIS), for pensioners (CIP) and for self-employed individuals (CII)

The three tax credits are increased from €300 to €600 for the low income between €11,266 and €40,000 per year. Then, they are gradually decreased until zero for income between €40,001 € and €79,999 € per year. As from €80,000, they are abolished.

In order to take into account the recent case law of the Court of Justice of the European Union, the CIS and the CIP can now be granted through the tax declaration or the withholding tax adjustment for the taxpayers who do not have a tax card.

Increase in the single-parent tax credit (CIM)

The single-parent tax credit is doubled from €750 to €1,500 for the taxpayers with a taxable income lower than €35,000. For a taxable income between €35,000 and €105,000, the tax credit is gradually decreased to reach €750 €. Above €105,000, the tax credit is maintained at €750.

The CIM is reduced by 50% of the amount of any kind of allowances granted to the child (except the orphans' pensions and family benefits) insofar as they exceed a certain threshold which has been reviewed from €1,920 to €2,208.

As from now, the CIM will be only granted to the parent who is actually living alone with the child.

Meal vouchers

The taxable benefit in kind is maintained at €2.80 for the meal vouchers with a maximum face value of €10.80 € (instead of €8.40 in 2016).

If the employer grants meal vouchers with a face value above €10.80 €, the taxable benefit in kind will be €2.80, increased of the difference between the face value of the meal voucher and the amount of €10.80.

Face value of meal voucher	€ 8.40	€ 10.80	€ 12.00
Tax exemption	€ 5.60	€ 8.00	€ 8.00
Taxable benefit in kind or employee personal contribution	€ 2.80	€ 2.80	€ 4.00

Company cars

As from now, the lump sum valuation of the benefit in kind will take into account the fuel type and CO2 emissions level of the vehicle. The rate to be taken into consideration to determine the benefit in kind will range between 0.5% and 1.8% depending on the type of vehicle.

CO2 emissions level	-	Monthly benefit in kind = % purchase price of the car (VAT and options included)		
	Old leasing contract still in force on 01.01.2017	New leasing contract as from 01.01.2017		
	All categories	Fuel/hybrid/gas	Diesel/hybrid	100% electric/hydrogen
0g/km	1.5%	-	-	0.5%
> 0-50g/km		0.8%	1.0%	-
> 50-110g/km		1.0%	1.2%	-
> 110-150g/km		1.3%	1.5%	-
> 150g/km		1.7%	1.8%	-

Final withholding tax on interest (RELIBI)

The rate of final withholding tax on eligible interest paid to Luxembourg residents is increased from 10% to 20%. Interest not exceeding €250 per taxpayer and per paying agent will remain tax exempt.

Abolition of the rental value on the main residence

With a view to administrative simplification, the rental value of the main residence, located in Luxembourg or abroad, is reduced to zero.

Mortgage interest on the main residence

The annual deduction ceilings of the mortgage interest on the main residence are increased as follows:

Occupancy period	Deductible mortgage interest	
During the housing vacancy period (construction / renovation)	100%	
-	2016	2017
Year of occupation + 5 years	1,500 €	2,000 €
5 subsequent years	1,125 €	1,500 €
Following years until the end of the contract	750 €	1,000 €

Rental income through social accommodation agencies

Rental income is exempted up to 50% provided that the rental income is provided through a social accommodation agency.

Exemption of the orphan's pension

The orphan's pension paid to legitimate or assimilated children is now exempt from tax.

Tax relief for sustainable transport

In order to encourage the use of eco-friendly vehicles, a tax relief for sustainable transport is introduced under certain conditions.

Types of cars (used for private purposes)	Allowance for sustainable transport
Cars with zero emission	€ 5,000
Cycles with pedaling assistance/cycles	€ 300

Home saving plan

The annual ceiling deduction for contributions paid under a home saving plan is doubled for the taxpayers between 18 and 40 years of age.

Age of the subscriber on January 1 st	Maximum deduction
From 18 to 40 years old	€1,344/person in the household
In the other cases	€672/person in the household

In case of joint taxation, the increased ceiling of €1,344 is granted according to the age of the youngest adult subscriber.

The taxpayer must use the accumulated savings for his personal housing needs. Otherwise, he loses the right to deduct the premiums paid under a future home saving plan.

These new rules apply to new and existing contracts.

Private old-age pension plan

The annual ceiling deduction for the premiums paid under an old-age pension plan is now fixed at €3,200, irrespective of the age of the policyholder.

In addition, the reimbursement of the accumulated saving can now be made entirely in the form of capital, life annuity payable monthly or a combination of both.

These new rules apply to new and existing contracts.

Debt interest and insurance premiums

The annual deduction ceilings for debt interest and insurance premiums are merged into a single annual ceiling of €672 per year per person in the household.

Allowance for children being not part of the household

The allowance granted for the contribution to care and education costs of children being not part of the taxpayer's household (alimony, etc.) increases from €3,480 to €4,020 per year and per child.

It will no longer be granted if both parents live together, with the child, in the same housing.

Housekeeping costs

The lump-sum allowance for housekeeping, childcare and assistance to dependent persons expenses is increased from €3,600 to €5,400 per year.

Liberal professions

As it is for the traders and farmers, liberal professions now have to keep double-entry accounts as soon as their annual turnover exceeds €100,000.

Tax relief for hiring unemployed persons

The scheme of the tax relief in case of hiring unemployed persons is extended until 31.12.2019.

Pluri-annual tax card

The new tax card will not contain any end date, only the reissuance of a new card will make invalid the previous card at the date of change.

Fiscal measures entering into force on 01.01.2018

Introduction of the option for individual taxation

As from the tax year 2018, resident and non-resident married taxpayers will be able renouncing the collective taxation in tax class 2 and opting for the individual taxation in tax class 1.

In case of option for the individual taxation, the spouses will have the choice between a pure individual taxation and an individual taxation with reallocation of income between spouses.

Registered partners may also opt for the individual taxation with reallocation of income between partners.

Taxation of the non-resident married taxpayers

Currently, married non-resident taxpayers are ranked into tax class 2 provided that more than 50% of the professional income of their household is taxable in Luxembourg. Otherwise, they are taxable in tax class 1a.

As from tax year 2018, non-resident married taxpayers will be ranked into tax class 1. Upon request, they will be able to obtain tax class 2 and be taxed by application of a global tax rate which will be determined in accordance with the terms and conditions of the article 157ter L.I.R, namely:

- They are taxable in Luxembourg up to 90% of their worldwide income* (this threshold must be reached by one of the spouses);
- All the household income (professional and non-professional income received in Luxembourg and abroad) will be taken into account based on conclusive supporting documents to determine the global tax rate;
- They will have to file an income tax return in Luxembourg (only the Luxembourg income will be taxed).

In 2017, the tax administration will send a letter to all concerned taxpayers in order to explain the new conditions for the granting of the tax class 2 and to collect supporting information regarding the household income.

*50% for Belgian residents

Other changes applicable to salaries as from 01.01.2017

Increase of the Minimum Social Wage

The minimum social wage for non-qualified and qualified employee is increased by 1,4%. This evolution involves an adjustment of the social minimum and maximum parameters (impact on the allowance for care insurance, ceiling for social security, minimum wages of pupils/students...).

Salary indexation

Based on the evolution of the consumer prices, a « tranche indiciaire » has been triggered on December 2016, leading to the increase of the wage index (passing from 775,17 to 794,54) and the increase of the salaries by 2,5% as of January 1st, 2017.

Feel free to contact Janique Bultot for additional information (janique.bultot@ifgroup.lu).

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