

Taxation of individuals

Luxembourg 2010



Tax class and tax grid

	Without children	With children in the household	Aged over 64 years on 1 st January 10
Single	1	1a	1a
Married / Partner*	2	2	2
Separated**	1	1a	1a
Divorced	1	1a	1a
Widow(er)***	1a	1a	1a

- *Non-resident married couples where more than 50% of their combined salary or professional income is taxable in Luxembourg [class 2].
- Non-resident married couples where less than 50% of their combined salary or professional income is taxable in Luxembourg [class 1a].
- *Taxpayers living in a registered partnership and taxpayers of the same sex married according to foreign law, on request via the filing of an annual personal tax return [class 2].
- **Persons who separated (judicial separation) or divorced in the 3 years preceding the tax year [class 2].
- ***Persons who became widowed in the 3 years preceding the tax year [class 2].

Tax on income is levied at different rates, according to tax brackets. For those the average tax rate may be estimated as follows:

Taxable income	1	1a	2
€ 20 000	5.21%	0%	0%
€ 30 000	10.77%	4.93%	2.29%
€ 40 000	16.25%	12.90%	5.21%
€ 50 000	20.79%	18.11%	8.01%
€ 60 000	23.81%	21.58%	10.77%
€ 70 000	25.98%	24.07%	13.53%
€ 80 000	27.60%	25.93%	16.25%
€ 90 000	28.86%	27.37%	18.77%
€ 100 000	29.87%	28.53%	20.79%
€ 110 000	30.69%	29.48%	22.44%
€ 120 000	31.38%	30.27%	23.81%
€ 130 000	31.96%	30.94%	24.98%
€ 140 000	32.46%	31.51%	25.98%
€ 150 000	32.90%	32 %	26.84%

Categories of income

- Income from commercial activities,
- Income from independent activities,
- Income from agricultural / forestry activities,
- Salaried income,
- Pension income,
- Investment income,
- Rental income / loss,
- Miscellaneous income including capital gain on the sale of investments / real estate.

Main exemptions

- Investment income. Maximum exempt : **€ 1,500** per annum⁽¹⁾.
- Dividends received from an EU resident fully taxable company or a company resident in a state with which Luxembourg has concluded a double tax treaty (exempt amount: 50%).
- Allowances for professional travels with a private car up to **€ 0.40** per kilometer.
- Allowances paid through a supplementary pension scheme pursuant to the law of 8 June 1999.
- Life annuity from a voluntary pension scheme (exempt: 50%).

Benefits in kind

- Providing an employee with accommodation. Monthly fringe benefit: in practice 75% of the rent paid by the employer.
- Providing an employee with a company car. Monthly fringe benefit: 1.5% of the actual acquisition cost of the car at new.
- Reduced rate loan. The interest saving is not taxable within the following limits:
 - Mortgages on the taxpayer's private home: **€ 3,000** resp. **€ 6,000** per annum depending on the taxpayer's situation.
 - Other loans: **€ 500** resp. **€ 1,000** per annum depending on the taxpayer's situation.

The interest saving is also exempted from social security contributions.

- Luncheon vouchers. Maximum exempt amount: **€ 5.60** per voucher provided that the employee makes a contribution of **€ 2.80** per voucher.

⁽¹⁾ doubled if jointly taxed

Interest: specific taxation

- A 10% withholding tax is levied on interest paid by resident paying agents or paying agents located in Luxembourg to resident individuals, including interest on bank deposits, government bonds and profit-sharing bonds⁽¹⁾. The withholding tax constitutes the final tax and is not reported in the individual's annual tax return.
- For interest⁽¹⁾ paid or credited by foreign paying agents located inside the EU or EEA (but outside Luxembourg), the Luxembourg resident taxpayer may opt for the 10% withholding tax via a specific tax form. Deadline is 31 March of the following tax year. This tax is final and the interest is not reported in the individual's annual tax return. If the option is not exercised, the individual has to report the interest income in his annual tax return.

Capital gains on investments

Capital gains on the sale of private assets held for more than 6 months are exempt from income tax. Capital gains on the sale of significant shareholdings are taxed at half the global rate. A once-off allowance of **€ 50,000**⁽²⁾ is granted to each taxpayer per 10 year period. A shareholding is significant when the transferor has owned, directly or indirectly, alone or together with his spouse and minor children, more than 10% of the company's capital during the last 5 years.

Capital gains on sale of real estate

- The capital gain is equal to the difference between the sale price and the revalued acquisition cost (article 102 LIR) including related expenses. A once-off allowance of **€ 50,000**⁽²⁾ is granted to each taxpayer per 10 year period. An additional allowance of **€ 75,000** is granted for a capital gain on the sale of a property inherited in the direct line, which was the parents' main residence. Each spouse is entitled to this additional allowance in respect of his or her own parents' property.
- Any capital gain on the sale of a taxpayer's principal residence is exempt.
- Capital gains on properties are exempted if sold to the State.
- Capital gains on property may be rolled over into other property provided the new investment is made in newly constructed buildings to be rented out and situated in Luxembourg.

⁽¹⁾ as long as the interest falls in the Relibi law

⁽²⁾ doubled if jointly taxed

Lump sum deduction for income related expenses

Income related expenses are expenses incurred by an individual to create, protect or preserve his income (training, expenses, tools). Unless the taxpayer can prove he had higher expenses, the following lump sum deductions are granted:

	Annual deduction	Annual maximum
Employment income expenses	€ 540 ^{(2) (5)}	–
Travel expenses	€ 396 ^{(2) (5)}	€ 2,970 ^{(2) (5)}
Deduction for expenses relating to pension income	€ 300 ^{(2) (6)}	–
Deduction for expenses relating to investment income	€ 25 ⁽¹⁾	–

Special expenses

Unless the taxpayer can prove he had higher expenses, a lump sum deduction of **€ 480** ⁽⁷⁾ is granted to every salaried taxpayer.

Maximum deductions yearly

	Maximum
Debit interest	€ 672 ⁽³⁾
Subscriptions to building society savings schemes (The corresponding credit interests are fully tax exempt)	€ 672 ⁽³⁾
Premiums for life, death, accident, disability, sickness or third party liability insurance	€ 672 ⁽³⁾
Insurance premiums taken out by the self employed ensuring an income if they are unable to work. Maximum increased by:	€ 1,500
Single premium death insurance tied to a mortgage loan on the taxpayer's principal residence. Maximum increased by:	€ 6,000 ⁽⁴⁾
For taxpayers over the age of 30, the allowable deduction is increased by 8% for each year over 30, with a ceiling of 160%. The maximum deduction for a 50 years old taxpayer (tax class 2) is thus	€ 16,944

For taxpayers over the age of 30, the allowable deduction is increased by 8%

Social security contributions – employee's part

Tax deductible social security contributions:

- Pension: 8%
- Sickness: 2.95%

Maximum annual contribution basis: **€ 100,965.48** (index 702.29)

Non tax deductible security contributions:

- Dependency insurance: 1.4% minus a deduction of **€ 420.69** per month on gross salary. No ceiling is applicable.

Supplementary pension scheme where the premium is withheld on salary pursuant to the law of 8 June 1999 **€ 1,200** ⁽⁵⁾

Voluntary pension scheme. The maximum is increased by the following deduction which depends on the age of the subscriber:

age	annual deduction	age	annual deduction
< 40 years	€ 1,500	48 years	€ 2,100
40 years	€ 1,750	49 years	€ 2,100
41 years	€ 1,750	50 years	€ 2,600
42 years	€ 1,750	51 years	€ 2,600
43 years	€ 1,750	52 years	€ 2,600
44 years	€ 1,750	53 years	€ 2,600
45 years	€ 2,100	54 years	€ 2,600
46 years	€ 2,100	55 to 74 years	€ 3,200
47 years	€ 2,100		

This deduction is doubled if both spouses take out separate insurance.

Alimony paid to a former spouse **€ 23,400**

Donations as provided for in article 112 LIR.

Minimum amount: **€ 120** per annum.

Maximum deductible amount:

20% of taxable income or **€ 1,000,000**

Prior years' losses carried forward in respect of the first 3 categories of income listed in article 10 LIR.

Allowances

Extraordinary charges to the extent that they exceed a certain percentage of taxable income. Extraordinary charges are expenses for hospitalization that are not covered by a sickness fund, maintenance of close relatives, expenses related to handicapped persons, employment of domestic staff, etc.

Taxable income percentage according to tax class							
Tax class	1		1a or 2				
Child(ren)	0	1	2	3	4	5	
less than 10,000	2%	0%	0%	0%	0%	0%	0%
10,000 - 20,000	4%	2%	0%	0%	0%	0%	0%
20,000 - 30,000	6%	4%	2%	0%	0%	0%	0%
30,000 - 40,000	7%	6%	4%	2%	0%	0%	0%
40,000 - 50,000	8%	7%	5%	3%	1%	0%	0%
50,000 - 60,000	9%	8%	6%	4%	2%	0%	0%
over 60,000	10%	9%	7%	5%	3%	1%	0%

- Education allowance for children not forming part of the taxpayer's household. Maximum amount: **€ 3,480** per annum ⁽⁷⁾.
- Allowance for household and childcare costs, attendance expenses arising from incapacity or invalidity. Maximum amount: **€ 3,600** per annum.
- Extra-professional allowance for jointly taxed married couples: **€ 4,500** per annum ⁽⁸⁾.
- Venture capital investment allowance. Maximum amount: **30%** of taxable income.
- Allowance for individuals who operate a business independently in their own name or in a partnership:
 - **5%** of net income not exceeding **€ 75,000**
 - **2%** of net income exceeding **€ 75,000**

Refundable tax credits

- Tax credit for single parents: **€ 750** per annum ⁽⁷⁾
- Tax credit for employees ^{(2) (5)} and pensioners ^{(2) (6)}: **€ 300** per annum

Child bonus

A separate child bonus of **€ 76.88** per month and per child is granted by the Luxembourg family fund for children for whom the taxpayer receives family allowances. For taxpayers, falling under a foreign social security system, the child bonus can be requested as tax relief through the filing of a personal annual tax return or tax reclaim up to the amount of tax paid.

(1) doubled if jointly taxed

(2) doubled if jointly taxed and both in receipt of an income

(3) increased by the same amount for the spouse/partner and each child

(4) increased by **€ 1,200** per child

(5) applicable also to non-residents receiving a salary taxable in Luxembourg

(6) applicable also to non-residents receiving a pension taxable in Luxembourg

(7) applicable also to non-residents receiving a professional income in Luxembourg

(8) applicable also to non-residents receiving more than 50% of their professional income in Luxembourg.

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