

# THE OECD TAX-BENEFIT MODEL FOR LUXEMBOURG

Description of policy rules for 2020



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## Description of policy rules for 2020

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## Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2020**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the **variable names** are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Luxembourg: Policy rules in 2020

### 1. Reference wages

Average wage [**AW**]: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#)).<sup>1</sup> If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth<sup>2</sup> to the latest available wage estimate.

The minimum wage [**MIN**] in 2020 is EUR 2 141.99 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2020) by 12, i.e. EUR 2 141.99 \* 12 = EUR 25 703.88

### 2. Unemployment benefits

#### 2.1. Unemployment insurance (*Indemnité de chômage*)

Code in the OECD tax-benefit model:<sup>3</sup> [**UI\_p**; **UI\_s**]

This is an unemployment insurance benefit. It is non-contributory, not means-tested and taxable. 

##### 2.1.1. Eligibility conditions

**Age:** It is available for people aged between 16 and 64.

**Contribution/employment history:** The claimant must have been employed for 26 weeks in the 12 months preceding unemployment at least for 16 hours a week.

If rights to unemployment benefits are exhausted, right opens once again after a period of 12 months which follows the end of rights if the condition of 26 weeks employment in that period is once again fulfilled.

**Behavioural requirements and related eligibility conditions:**  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.<sup>4</sup> The benefit claimant has to:

1. be registered at the employment exchange (ADEM, “Agence pour le développement de l’emploi”);

<sup>1</sup> Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

<sup>2</sup> Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

<sup>3</sup> The variable names ending with “\_p” refer to the first adult (so-called “principal” adult) whereas those ending with “\_s” are related to the spouse.

<sup>4</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

2. be available and fit for work;
3. be involuntarily unemployed;
4. be resident in Luxembourg.

### 2.1.2. *Benefit amount*

#### **Calculation base:**

The amount of benefits is calculated as a percentage of the average wage during the three months immediately preceding unemployment.

**Benefit amount:** A benefit of 80% of the average wage during the three months immediately preceding unemployment is increased to 85% if the beneficiary has dependent children. The maximum benefit level amounts to 250% of the social minimum reference salary.. The social minimum reference salary is EUR 2 141.99 per month as of 1st January 2020 (EUR 25 703.88 for the year 2020).

Unemployed aged below 21 with completed education or less than 26 working weeks in the last 12 months are eligible for a benefit amounting up to 70% of the minimum wage. The benefit for unemployed without completed education under 18 years of age (16-17 years) is 40% of the minimum reference wage (not modelled).

### 2.1.3. *Benefit duration*

The benefit is allocated during an equivalent period of time (calculated in months) as the working period fulfilled during the reference period taking in account for opening the right to unemployment allowance. The maximum benefit period is 365 calendar days in a 24-month period. The benefit is paid from the first day of unemployment; there is no waiting period. There may be prolongations for particular groups. Unemployed 50 years old and more qualify for prolongation of the benefit period by 12, 9 or 6 months if the contribution period is 30, 25 or 20 years respectively (with a threshold of 150% of the minimum wage).

After 55 years of age, a prolongation of 6 months is granted without special conditions for unemployed hard-to-employ (not modelled).

Moreover, the following two provisions, which were temporary applied, only from 17th August 2010 to 31st December 2017, are no longer possible since 1 January 2018:

- Unemployed aged 45 years and more, and having 20 years of affiliation at the social security system, qualify for a prolongation of 6 months.
- Unemployed aged less than 65 years, dismissed by a firm with partial unemployment benefits for at least 6 months at the moment of the dismissing, qualify for a prolongation of 6 months. Unemployed aged less than 65 years who lost their job following the giving up of business of the employer (due to death, physical impairment, or bankruptcy), qualify for a prolongation of 6 months (not modelled).

For unemployed aged below 21, the benefit is payable for 365 days (7 days per week) after a waiting period of 26 weeks (completed education period of 9 years at least) or 39 weeks.

#### **COVID-19 measures (Not currently implemented in TaxBEN model)**

Due to the extraordinary situation on the labour market triggered by the COVID-19 health crisis, jobseekers registered with ADEM face difficulties in finding a new job.

For this reason, the entitlement to unemployment benefit has been extended for the duration of the state of crisis (i.e. for 3 months, from 18 March through 24 June). This applies both to the duration of the regular employment benefit and to any extension period.

The period of entitlement to unemployment benefit, which is normally granted for a maximum of 12 months (maximum 24 months in the case of an extension), is therefore extended by a period of up to 3 months.

#### 2.1.4. *Means test*

The benefit is not means-tested.

#### 2.1.5. *Tax treatment*

Unemployment benefits are taxable. The tax base is the same as that for earned income, including the work related expenses allowance. Social contributions are due for health care, long term care and for pensions (old age, disability and survivors) (see section 7.).

#### 2.1.6. *Interactions with other components of the tax-benefit system*

- Situation where entitlement to one benefit affects the amount or entitlement to another benefit:

The amount of unemployment benefits payable is 80% of the gross salary earned however, this rate may be increased to 85% if applicants benefit from family allowances.

- Situation where receipt of one benefit automatically gives entitlement to another:

Non-resident unemployed workers are entitled to family allowances if they benefit from unemployment allowance.

- Situations where receipt of two different benefits is mutually incompatible:

Unemployment benefits are incompatible with invalidity pensions, work-accident pensions, tideover allowances, paid sick leaves as well as paid maternity leaves.

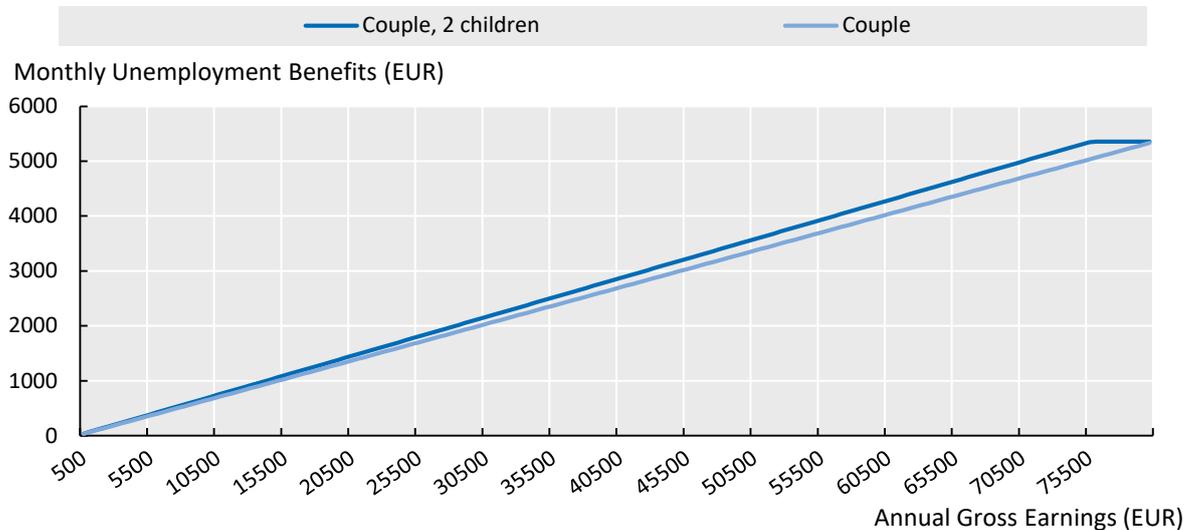
Unemployment benefit is included in the income definition used to calculate “allocation complémentaire”, in the income definition used to calculate “allocation de vie chère” and in the income definition used to calculate housing benefit.

Unemployment benefit is included in the tax base.

As far as unemployment benefit is included in the tax base and that the price that the parents have to pay for childcare is based on the household taxable income, unemployment benefit is interacted with childcare fees.

#### 2.1.7. *Combining benefit receipt and employment/starting a new job*

Income from accessory work is compatible with the unemployment benefit as long as it does not exceed 10% of reference salary (3 months are taken for reference salary computation). If the income is higher than 10% of reference salary, the amount in excess is deducted from the benefit.

**Figure 1 – Unemployment Benefits by gross earnings**

Note: All adults are 40 years old. Children, if present, are 4 and 6.

### 3. Social assistance and housing benefits

#### 3.1. Social inclusion income (*RE*Venu d'*I*nclusion Sociale, *RE*VIS)

Code in the OECD tax-benefit model: **[SA]**

Since the 1<sup>st</sup> January 2019, the REVIS replaces the previous RMG.

This is a non-contributory benefit, means-tested and taxable.

The REVIS consists in granting :

- either a social inclusion benefit (“allocation d’inclusion”) to provide those who have no income, or whose income falls below a certain threshold, with a basic means of livelihood,
- or an activation benefit (“allocation d’activation”) to financially support a person taking part in an activation programme,
- or a combination of the social inclusion benefit and the activation benefit.

##### 3.1.1. Eligibility conditions

To be eligible for REVIS, applicants must:

- be legally resident and actually live in Luxembourg;
- be at least 25 years old;
- be receiving an income, either personally or collectively with their household, which falls below the thresholds set by law;
- be looking for a job (if they are not employed), and be and remain registered as a job seeker with the National Employment Agency (Agence pour le développement de l’emploi – ADEM);

- be prepared to exhaust all options, in Luxembourg or abroad, to improve their situation (for instance, find out whether they are entitled to unemployment benefits, to a pension, etc.).

People under 25 do not qualify for REVIS unless they have dependent children, are 7 months pregnant, are responsible for a dependent person or unable to work.

Beneficiaries of an invalidity or an old-age pension and/or over 64 years do not need to be available for the labour market any longer.

### 3.1.2. *Benefit amount*

The gross amount of the activation benefit is equivalent to the hourly rate of the minimum wage multiplied by the number of hours the person has to supply.

The amount of the social inclusion benefit is the difference between the REVIS below and the amount defined in section 3.1.4.

	REVIS (EUR per month) 1st January 2020
Amount per adult (Montant forfaitaire de base par adulte)	751,46
Amount per child (Montant forfaitaire de base par enfant)	233,32
Additional amount for children living with one parent (per child) (Majoration pour les enfants qui ne vivent qu'avec un seul parent)	68,96
Amount for common expenses of the household (Montant couvrant les frais communs du ménage)	751,46
Additional amount for common expenses of households with children (per household) (Majoration couvrant les frais communs du ménage d'une communauté domestique avec enfant(s))	112,78

### 3.1.3. *Benefit duration*

There is no duration limit.

### 3.1.4. Means test

Gross income from whatever source is included in the income test, but an amount of 25% of the earned income, replacement income or pension income is disregarded. Family allowances, new school year allowance, cost-of-living benefit, childcare benefits and tax credits are not considered as income for the social assistance means test.

### 3.1.5. Tax treatment

The activation benefit and the social inclusion benefit are taxable. Full social security contributions are payable with the activation benefit whereas for the social inclusion benefit, in general only the sickness contributions and long term care contributions are payable.

Pensions contributions are paid by the National Solidarity Fund for those beneficiaries of a social inclusion benefit who have already a period of insurance of at least 25 years in the general pension scheme. The difference between the social minimum reference salary and the beneficiary's professional income is the taxes base.

### 3.1.6. Interaction with other components of the tax-benefit system

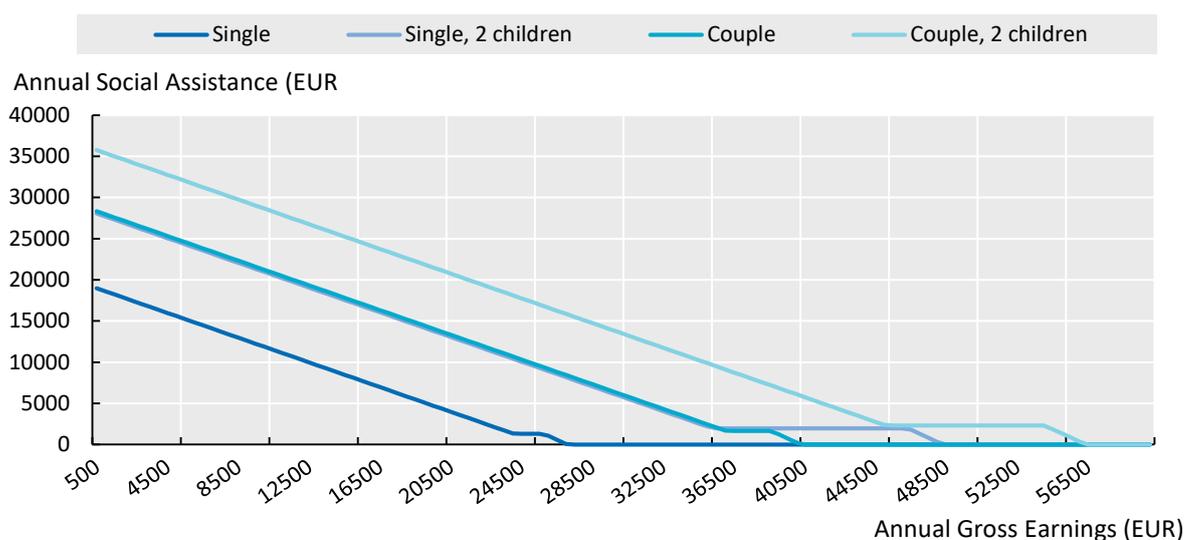
The social inclusion benefit and the activation benefit are included in the income definition used to calculate the annual gross income limits of the cost-of-living benefit (see 3.3.4.) and on the income definition used to calculate housing benefit.

The social inclusion benefit and the activation benefit are included in the tax base.

### 3.1.7. Combining benefit receipt and employment/starting a new job

As far as the income from an employment/starting a new job is lower than the REVIS (for example a part-time job or a full time job in a large family) the right of the REVIS is still open. If the income from the new job is higher than REVIS, the benefit is suspended.

**Figure 2 – Social Assistance by gross earnings**



Note: All adults are 40 years old. In case of couples, spouse does not work. Children, if present, are 4 and 6.

### 3.2. Housing benefit (*Subvention de loyer*)

Code in the OECD tax-benefit model: [\[HB\]](#)

This is a non-contributory benefit, means-tested and not taxable.

Since the 1st January 2016, a new housing benefit called “subvention de loyer” (rent subsidy) has been introduced. This benefit has been reformed substantially in 2017 and this reform entered in force on 1<sup>st</sup> January 2018.

#### 3.2.1. Eligibility conditions

The “*subvention de loyer*” concerns households (applicant must be 18 years old and more) living in Luxembourg with low income and who rent or wish to rent a dwelling on the private market (households who rent social housing are excluded from this benefit). Furthermore, the rent must exceed more than 25% of the income and the applicant must not be owner of a dwelling in Luxembourg or abroad.

#### 3.2.2. Benefit amount

The “subvention de loyer” is calculated according to:

- the income of the household,
- the composition of the household,
- and a reference rent the amount of which is depending on the household composition and defined according to the theoretical optimal needs by type of households

According to the household composition and the income, the monthly amount varies between 124 EUR and 273 EUR but may not exceed the rent paid by the household.

Amount as of 1st January 2020 (*These amounts will be adapted as of 1st April, 2020*)

Type of household	Low income threshold (EUR/month)	Reference rent (EUR/month)	Maximum amount of the “ <i>subvention de loyer</i> ” (EUR/month)
1 person	2 500	846	124
Household without children	3 750	927	124
Household with 1 child	4 500	1 089	149
Household with 2 children	5 250	1 249	174
Household with 3 children	6 000	1 463	199
Household with 4 children	6 750	1 816	224
Household with 5 children	7 500	2 034	248
Household with 6 children	8 250	2 170	273
+ for each subsequent child	+ 750	+ 125	+ 0

The amount of « subvention de loyer » is calculated with the following formula:

<b>COVID-19 measures (Not currently implemented in TaxBEN model)</b>			
Amount as of 1 <sup>st</sup> April 2020 :			
<b>Type of household</b>	<b>Low income threshold (EUR/month)</b>	<b>Reference rent (EUR/month)</b>	<b>Maximum amount of the “subvention de loyer” (EUR/month)</b>
1 person	2 650	935	134
Household without children	3 950	1 020	134
Household with 1 child	4 750	1 200	160
Household with 2 children	5 500	1 380	187
Household with 3 children	6 300	1 615	214
Household with 4 children	7 100	2 005	241
Household with 5 children	7 900	2 245	267
Household with 6 children	8 650	2 395	294
+ for each subsequent child	+ 800	+ 140	+ 0

Legal reference of the change: <http://www.legilux.lu/eli/etat/leg/rgd/2020/03/27/a202/jo>

Institutional reference of the change:  
<https://guichet.public.lu/en/citoyens/logement/location/aides-au-logement/subvention-loyer.html>

$SL = Lo - (0,25 \times Y_{net})$  where:

- SL is the amount of the « subvention de loyer »;
- Lo is the reference rent depending on the household composition;
- 0,25 is the reasonable theoretical affordability ratio of the household for the rent;
- Ynet is the income.

### 3.2.3. *Benefit duration*

No duration limit.

### 3.2.4. *Means test*

The income represents the sum of:

- the net incomes referred to in article 10 of the modified law of 4<sup>th</sup> December 1967 on income tax. Net income is calculated as:
  - gross income subjected to income tax
  - less professional expenses (minimum of EUR 540 (multiply by 2 in case of two wage earners in the household)),

- less an allowance of EUR 300 for the those households receiving REVIS/RGPH or receiving any pension (multiply by 2 in case of two pension beneficiaries)
- less special deductions (minimum of EUR 480 (multiply by 2 only in case of two wage earners in the household));
- parental leave benefit;
- received alimony;
- accident at work pension;
- gross wage for overtime hours worked;
- less social contributions;
- less income tax.

Paid alimony are deducted from the income.

The income of the descendants and ascendants of the applicant who live in the dwelling of the household and which are declared there are to be added to the said sum.

### 3.2.5. *Tax treatment*

Not taxable

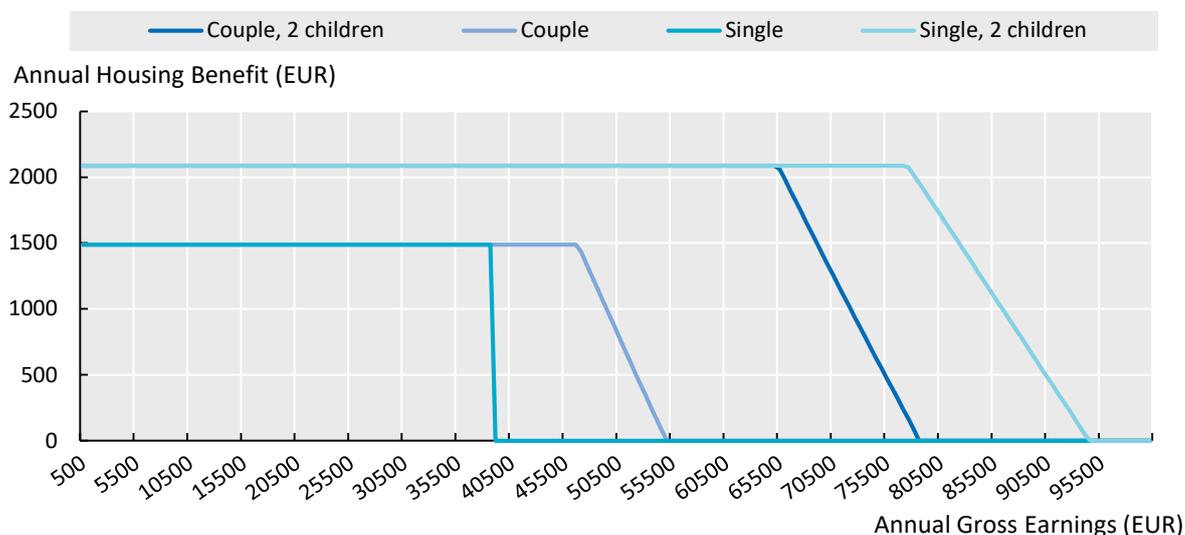
### 3.2.6. *Interaction with other components of the tax-benefit system*

Until end of 2018, no cumulation of the rent subsidy and the rent housing for social assistance recipients (majoration RMG) is possible, so only a “subvention de loyer” can be obtained by beneficiaries of the social assistance (RMG) in case of a new application or a modification of the financial/family situation as of 1st January 2016. However, beneficiaries of the social assistance (RMG ) having received the so-called housing benefit for social assistance recipients (majoration RMG) before the introduction of the “subvention de loyer” continue to receive it after the 1st January 2016 as long as no change concerning the family or the financial situation is observed (transitory arrangement).

From January 1, 2019, cumulating the housing benefit and the REVIS is possible.

### 3.2.7. *Combining benefit receipt and employment/starting a new job*

Yes

**Figure 3 – Housing Benefit by gross earnings**

Note: All parents are 40 years old. In case of couple, spouse does not work. Children, if present, are 4 and 6.

### 3.3. The cost-of-living benefit (“Allocation de vie chère”)

The National Solidarity Fund (Fonds National de Solidarité) will grant on demand for the year 2020 a cost-of-living benefit (“**allocation de vie chère**”), which consists in an annual amount.

This is a non-contributory benefit, means-tested and not taxable.

#### 3.3.1. Eligibility conditions

The cost-of-living benefit may be awarded to anyone who:

- **is legally resident and** actually lives in Luxembourg;
- **has been legally resident** in Luxembourg for a reference period of **12 continuous months** prior to the month in which they submitted the application;
- either alone or cumulatively with the people living with the applicant in the same [household](#), and at the time of submitting the application, has a **low annual income**.

Students are not entitled to the cost-of-living benefit.

#### 3.3.2. Benefit amount

The cost-of-living benefit for 2020 is fixed as (divided by 12 for monthly amounts) :

- 1 320 EUR/year for a single person
- 1 650 EUR/year for a family type of 2 persons
- 1 980 EUR/year for a family type of 3 persons
- 2 310 EUR/year for a family type of 4 persons
- 2 640 EUR/year for a family type of 5 persons and more.

**COVID-19 measures (Not currently implemented in TaxBEN model)**

Due to the COVID19 crisis, the cost-of-living benefit for 2020 is doubled (divided by 12 for monthly amounts) (decision taken the 20 May 2020):

- 2 640 EUR/year for a single person
- 3 300 EUR/year for a family type of 2 persons
- 3 960 EUR/year for a family type of 3 persons
- 4 620 EUR/year for a family type of 4 persons
- 5 280 EUR/year for a family type of 5 persons and more.

Legal reference: <http://memorial.lu/eli/etat/leg/rgc/2020/05/20/a413/jo>

In case the above, annual gross income limit (see 3.3.4.) is exceeded by an amount not exceeding the amount of the cost-of-living benefit corresponding to the family type, the benefit of a **reduced cost-of-living benefit** is possible. For these cases, the reduced benefit is equal to the gross annual income limit for a family type plus the amount of the cost-of-living benefit for this family type less the gross annual income of this family type.

**Example:**

- Annual cost-of-living benefit for a family of 1 person: 1 320 EUR/year
- Annual gross income limit for a family of 1 person: 25 744.00 EUR/year
- Annual gross income: 26 000 EUR/year
- Reduced annual cost-of-living benefit will be:  
 $25\,744.00 + 1\,320 - 26\,000 = 1\,064$  EUR/year

**Example (COVID-19 measures, not currently implemented):**

- Annual cost-of-living benefit for a family of 1 person: 2 640 EUR/year
- Annual gross income limit for a family of 1 person: 25 744.00 EUR/year
- Annual gross income: 26 000 EUR/year
- Reduced annual cost-of-living benefit will be:  
 $25\,744.00 + 2\,640 - 26\,000 = 2\,384$  EUR/year

**3.3.3. Benefit duration**

The amount is due for 1 year. Each year, applicants must make a new demand for the cost-of-living-benefit. There is no limit in the number of years.

### 3.3.4. Means test

For the cost-of-living benefit, the income definition includes all gross income. The family benefits, school expenses allowance, birth allowance, childcare benefits and tax credits are not considered in the income definition. The annual gross income limits for 2020 are fixed as (divided by 12 for monthly gross income limits):

Family type	Annual gross income limits (EUR per year) January 1, 2020
1 person	25 744,00
2 persons	38 616,00
3 persons	46 339,20
4 persons	54 062,40
5 persons	61 785,60
6 persons	69 508,80
7 persons	77 232,00
8 persons	84 955,20
9 persons	92 678,40
10 persons	100 401,6

### 3.3.5. Tax treatment

The cost-of-living benefit is tax free and social contribution free.

### 3.3.6. Interaction with other components of the tax-benefit system

No, it can be cumulated with REVIS or any other component of the tax-benefit system. The cost-of-living benefit is NO MORE included in the income definition used to calculate the housing benefit.

### 3.3.7. Combining benefit receipt and employment/starting a new job

Yes, but if the salary of the new job is bigger than the annual gross income limit, the cost-of-living benefit must be paid back to the National Solidarity Fund.

## 4. Family benefits

Code in the OECD tax-benefit model: **[FB]**

### 4.1. Family allowance (“Allocation pour l’avenir des enfants”)

This is a non-contributory benefit, not means-tested and not taxable.

#### 4.1.1. *Eligibility conditions*

Family allowances are paid only to families with dependent children under 18 (or under 25 if still in secondary education; higher education, such as university studies, are excluded since 2010).

#### 4.1.2. *Benefit amount*

New claimants and children living in a one-child family: 265 EUR/month

Pre-reform claimants (reform entered in Law the 1<sup>st</sup> august 2016):

<b>Child belonging, before the reform, to a family group of ...</b>	<b>EUR/month</b>
2 children	297,24
3 children	344,46
4 children	368,02
5 children	382,16
6 children	391,58
7 children	398,31
8 children	403,36
9 children	407,29
10 children	410,43
11 children	413,00
12 children	415,14
13 children	416,95
14 children	418,51
15 children	419,85
16 children	421,03
17 children	422,07
18 children	422,99
19 children	423,82

20 children	424,56
21 children	425,24
22 children	425,85
23 children	426,41
24 children	426,92
25 children	427,39

Additional complement for children aged 6 and more (new claimants and pre-reform claimants): 20 EUR/month

Additional complement for children aged 12 and more (new claimants and pre-reform claimants): 50 EUR/month

#### 4.1.3. *Benefit duration*

The duration is fixed by the age limit (see 4.1.1.).

#### 4.1.4. *Means test*

The allowance is not means-tested.

#### 4.1.5. *Tax treatment*

The allowance is not taxable.

#### 4.1.6. *Interaction with other components of the tax-benefit system*

Since 2018, the family allowance is NO MORE included in the income definition used to calculate the cost-of-living benefit and NO MORE included in the income definition used to calculate the “housing benefit”.

#### 4.1.7. *Combining benefit receipt and employment/starting a new job*

Yes

### 4.2. *New school year allowance (“Allocation de rentrée scolaire”)*

Code in the OECD tax-benefit model: [\[school\\_all\]](#)

This is a non-contributory benefit, not means-tested and not taxable.

#### 4.2.1. *Eligibility conditions*

Luxembourg pays new school year allowance in August each year for all children receiving family benefits aged six and older who are either in the primary school or the secondary school.

#### 4.2.2. *Benefit amount*

For each child over age six, the allowance is 115 EUR/year and 235 EUR/year for each child age 12 or older (divided by 12 for monthly amounts).

#### 4.2.3. *Benefit duration*

As long as a child receives family allowances.

#### 4.2.4. *Means test*

Not means-tested.

#### 4.2.5. *Tax treatment*

Non-taxable.

#### 4.2.6. *Interaction with other components of the tax-benefit system*

Since 2018, the new school year allowance is NO MORE included in the income definition used to calculate the cost-of-living benefit.

#### 4.2.7. *Combining benefit receipt and employment/starting a new job*

Yes

### 4.3. *Tax credit for lone-parent (Crédit d'impôt monoparental)*

A tax credit for lone-parent is available (see section 8.1.4).

## 5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **January 1, 2020**.

School is compulsory for children as of for 4 years of age; early childhood education initiates at the age of 3 years. Childcare is provided by several types of childcare facilities, welcoming children in their early childhood age to those aged up to 12. Some are *associations sans but lucratif* (not-for-profit organisations) or facilities managed by municipalities; others are private-law undertakings.

### 5.1. *Gross childcare fees*

Code in the OECD tax-benefit model: [\[LXcc\\_cost\]](#)

The government introduced a measure called “childcare-service vouchers” (Chèque-service accueil – CSA) in March 2009. The service voucher is an allowance paid in kind rather than in cash and represents a dedicated type of public benefit for children and their families. The system aims at subsidizing parental financial contribution, encouraging access to non-formal education. The vast majority of the facilities are subsidised by the State, be they public or private facilities. An education and care services provider (Service d'Éducation et d'Accueil – SEA or the childminder) wishing to join the childcare service voucher scheme must file an application with the Education and Care Department at the

Ministry of Education, Children and Youth, for recognition as a Chèque-Service Accueil service provider.

In order to gain recognition as a Chèque-Service Accueil service provider, the manager of the SEA or the childminder must fulfil conditions regarding the implementation of quality tools in line with the national framework of reference for ‘Non-formal education of children and young people’, as well as fulfil the conditions of mandatory continuous education and agree to a visit from a regional representative of the National Youth Service.

Each SEA or AP (Assistant Parental, childminder) must hold an official accreditation issued by the Ministry of Education, Children and Youth based on criteria of respectability, qualification of staff and infrastructures.

Children are eligible to child care vouchers if they are aged 0-12 or still in primary education. When the scheme was first implemented (March 2009), a condition of residence in Luxembourg was introduced. This condition has been lifted for September 2016 (billed voted in February 2016).

In March 2009, when the scheme was first implemented, the child care cost was subsidized up to 7.50€ per hour; the maximum number of hours subsidized was 60 hours per week. The extent of the subsidy varied according to the taxable income of the household and the rank of the child among siblings eligible to family allowances; each child was however entitled to at least 3 free hours per week. In the context of budget consolidation measures, the government decided to modify the system in 2012, decreasing the maximum value of hourly subsidy (from EUR 7,50 to EUR 6,00) for settings in the private sector, and suppressing the three free hours per week for families with income higher than 3.5 times the minimum wage. A reform of the child-care voucher entered into force in October 2017 with a maximum value of hourly subsidy fixed at EUR 6 for settings in childcare centres publicly funded and commercial childcare centres and an hourly price fixed at EUR 3,75 for settings by childminders. Free hours were increased for all low income families, and a multilingualism education program was launched for children in collective childcare facilities. This program gives the right to all not full time at school children aged 1 to 4 years to attend maximum 20 hours per week free of charge (46 weeks per year). For those children (aged 1 to 4), the child-care service vouchers scales start after these 20 hours per week free of charge. In other words, all children aged 1 to 4 in a day-care service benefit at least 20 hours per week free of charge (46 weeks per year). The hourly unsubsidised price for those children is EUR 6,71.

The price the parents have to pay is defined by law. It is based on the household taxable income. Siblings taken into account in order to determine the rank of the child are those eligible to family allowances.

The parents' financial contributions calculated following three different scales (Tariff 1, Tariff 2, Tariff 3) plus a scale for the meals. There are 2 different categories of scales: childcare centres and child minders. The categories are then subdivided in a scale for school aged (4-12) children and a scale for non schooled (0-4) children (see table below).

Any credit for hours per week cannot be carried forward from one week to another.

Children exposed to the risk of poverty and/or threatened by social exclusion are more specifically targeted by the child care voucher scheme. They are entitled to a higher number of hours per week free of charge.

The criteria for identifying children exposed to the risk of poverty are those living in households where there is a low level of income, excessive indebtedness, extraordinary

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costs, illness of one of the household members and the best interests of the child (principle stipulated by article 3 of the UN Convention on the Rights of the Child, 1989).

Taxable income is defined as follows: gross income subjected to personal income taxation (wage, replacement income (unemployment benefit in the framework of the Tax Benefit questionnaire)) and “allocation d’inclusion” from the REVIS program) less EUR 540/year/wage earner for professional expenses (in case of receiving a wage or unemployment benefit), less EUR 300/year (in case of receiving the “allocation d’inclusion”) less EUR 480/year for special expenses (doubled in case of two wage earners) less social contributions paid for health insurance and for pension insurance.

When modelling the Chèque-Service Accueil program, the TaxBEN model assumes that childcare is used for all hours when both parents are working, up to a maximum of 40 hours. TaxBEN assumes an hourly cost equal to the maximum subsidy (EUR 6,71) for children between 1 and 4 years old. A similar assumption is made for meal subsidies (EUR 4,50). The resulting childcare subsidy is calculated with reference to this base cost.

**Scale of the participation of the parents for childcare as of the 1<sup>st</sup> January 2020:**

Niveau de revenu	Enfants du ménage	Age des enfants	Heures Tranche 1	Tarif Tranche 1	Heures Tranche 2	Tarif Tranche 2	Heures Tranche 3	Tarif Tranche 3	Tarif Repas
Situation de précarité et d'exclusion ou RMG	1	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	0,50 €	gratuit
	2	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	0,30 €	gratuit
	3	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	0,15 €	gratuit
	A partir du 4e enfant	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	gratuit	gratuit
Revenu inférieur à 1,5 SSM	1	Tous les enfants	13 heures	gratuit	21 heures	0,50 €	26 heures	0,50 €	0,50 €
	2	Tous les enfants	13 heures	gratuit	21 heures	0,30 €	26 heures	0,30 €	0,50 €
	3	Tous les enfants	13 heures	gratuit	21 heures	0,15 €	26 heures	0,15 €	0,50 €
	A partir du 4e enfant	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	gratuit	0,50 €
Revenu inférieur à 2 SSM	1	Tous les enfants	13 heures	gratuit	21 heures	1,00 €	26 heures	1,50 €	1,00 €
	2	Tous les enfants	13 heures	gratuit	21 heures	0,70 €	26 heures	1,10 €	1,00 €
	3	Tous les enfants	13 heures	gratuit	21 heures	0,35 €	26 heures	0,55 €	1,00 €
	A partir du 4e enfant	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	gratuit	1,00 €
Revenu inférieur à 2,5 SSM	1	Tous les enfants	8 heures	gratuit	21 heures	1,50 €	31 heures	2,50 €	1,50 €
	2	Tous les enfants	8 heures	gratuit	21 heures	1,10 €	31 heures	1,80 €	1,50 €
	3	Tous les enfants	8 heures	gratuit	21 heures	0,55 €	31 heures	0,90 €	1,50 €
	A partir du 4e enfant	Tous les enfants	8 heures	gratuit	21 heures	gratuit	31 heures	gratuit	1,50 €
Revenu inférieur à 3 SSM	1	Tous les enfants	8 heures	gratuit	21 heures	2,00 €	31 heures	3,50 €	2,00 €
	2	Tous les enfants	8 heures	gratuit	21 heures	1,50 €	31 heures	2,60 €	2,00 €
	3	Tous les enfants	8 heures	gratuit	21 heures	0,75 €	31 heures	1,30 €	2,00 €
	A partir du 4e enfant	Tous les enfants	8 heures	gratuit	21 heures	gratuit	31 heures	gratuit	2,00 €
Revenu inférieur à 3,5 SSM	1	Tous les enfants	3 heures	gratuit	21 heures	2,50 €	36 heures	4,50 €	2,00 €
	2	Tous les enfants	3 heures	gratuit	21 heures	1,80 €	36 heures	3,30 €	2,00 €

	3	Tous les enfants	3 heures	gratuit	21 heures	0,90 €	36 heures	1,65 €	2,00 €
	A partir du 4e enfant	Tous les enfants	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
Revenu inférieur à 4 SSM	1	Jeune enfant	3 heures	3,50 €	21 heures	3,50 €	36 heures	5,50 €	2,00 €
	2	Jeune enfant	3 heures	2,70 €	21 heures	2,70 €	36 heures	4,10 €	2,00 €
	3	Jeune enfant	3 heures	1,60 €	21 heures	1,60 €	36 heures	2,05 €	2,00 €
	A partir du 4e enfant	Jeune enfant	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
	1	Enfant scolarisé	3 heures	3,50 €	21 heures	3,50 €	36 heures	5,50 €	3,00 €
	2	Enfant scolarisé	3 heures	2,70 €	21 heures	2,70 €	36 heures	4,10 €	3,00 €
	3	Enfant scolarisé	3 heures	1,60 €	21 heures	1,60 €	36 heures	2,05 €	3,00 €
	A partir du 4e enfant	Enfant scolarisé	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	3,00 €
Revenu inférieur à 4,5 SSM	1	Jeune enfant	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	2,00 €
	2	Jeune enfant	3 heures	3,20 €	21 heures	3,20 €	36 heures	4,80 €	2,00 €
	3	Jeune enfant	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,40 €	2,00 €
	A partir du 4e enfant	Jeune enfant	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
	1	Enfant scolarisé	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	4,50 €
	2	Enfant scolarisé	3 heures	3,20 €	21 heures	3,20 €	36 heures	4,80 €	4,50 €
	3	Enfant scolarisé	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,40 €	4,50 €
	A partir du 4e enfant	Enfant scolarisé	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	4,50 €
Revenu égal ou supérieur 4,5 SSM	1	Jeune enfant	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	2,00 €
	2	Jeune enfant	3 heures	3,20 €	21 heures	3,20 €	36 heures	5,60 €	2,00 €
	3	Jeune enfant	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,80 €	2,00 €
	A partir du 4e enfant	Jeune enfant	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
	1	Enfant scolarisé	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	4,50 €
	2	Enfant scolarisé	3 heures	3,20 €	21 heures	3,20 €	36 heures	5,60 €	4,50 €
	3	Enfant scolarisé	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,80 €	4,50 €

	A partir du 4e enfant	Enfant scolarisé	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	4,50 €
Sans indication de revenu	1	Jeune enfant	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	2,00 €
	2	Jeune enfant	3 heures	3,20 €	21 heures	3,20 €	36 heures	5,60 €	2,00 €
	3	Jeune enfant	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,80 €	2,00 €
	A partir du 4e enfant	Jeune enfant	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
	1	Enfant scolarisé	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	4,50 €
	2	Enfant scolarisé	3 heures	3,20 €	21 heures	3,20 €	36 heures	5,60 €	4,50 €
	3	Enfant scolarisé	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,80 €	4,50 €
	A partir du 4e enfant	Enfant scolarisé	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	4,50 €

The value of the SSM (salaire social minimum) is EUR 2 141.99/month on January 1 2020.

**Examples (for children aged 4 and over):**

**1.** The tariff per hour for a second child in a household earning EUR 4500/month (i.e. with an income smaller than 2.5 minimum wage) will be as follows:

- first 8 hours/week are free of charge
- 9-29 hours/week: EUR 1,10 (Tariff 2)
- 30-60 hours/week: EUR 1,80 (Tariff 3)
- >60 hours: EUR 6 (full tariff)
- Main meal: EUR 1,50/meal (5 meals per week)

**2.** Children living in households who might be at risk of social exclusion (beneficiaries of the minimum wage) or exposed to the risk of poverty

- 34 first hours/week are free of charge
- 35-60 hours/week: EUR 0,50 (Tariff 3)=> second child EUR 0,30 etc
- >60 hours: EUR 6 (full tariff)
- Main meal: free of charge (5 meals per week)

*5.1.1. Discounts for part-time usage*

Not applicable.

**5.2. Fee discounts and free provision**

*5.2.1. Eligibility*

All children aged from 1 to 4 years, not full time at school and attending a collective childcare facility

*5.2.2. Amount of discount or free provision*

In the framework of the multilingual education program, all children aged from 1 to 4 years, not full time at school and attending a collective childcare facility are eligible, with effect from October 2017, for 20 hours' free attendance per week, over a period of 46 weeks per year. Assistants parentaux (APs, i.e. childminders) do not form part of this programme, because the type of care they offer cannot fulfil the conditions required for multilingual education (one person for each language).

The multilingual education program can be combined with the financial support provided in the context of the CSA. Thus, the free hours of childcare which households having an income less than or equal to three times the minimum social wage are entitled to, are added to the 20 hours' free attendance.

### 5.2.3. *Variation by income*

No

### 5.3. *Child-care benefits for formal centre-based care*

Code in the OECD tax-benefit model: [\[cc\\_benefit\]](#)

There is no cash benefit scheme for parents whose children are registered in a childcare system.

### 5.4. *Child care allowance for children not using child care centers*

None.

### 5.5. *Tax concessions for childcare expenditures*

The taxpayer can also obtain a standard abatement for childminding expenses of EUR 5 400 per year per family. In this case the taxpayer has to renounce to the abatement for inevitable extraordinary charges for child care expenses. The standard abatement cannot exceed the amount of the real expenses nor EUR 450 per month. (See 8.1.1. *Tax allowances*)

#### 5.5.1. *Eligibility*

Children must be less than 14 years old and be in a childcare structure accredited by the State.

#### 5.5.2. *Maximum amount*

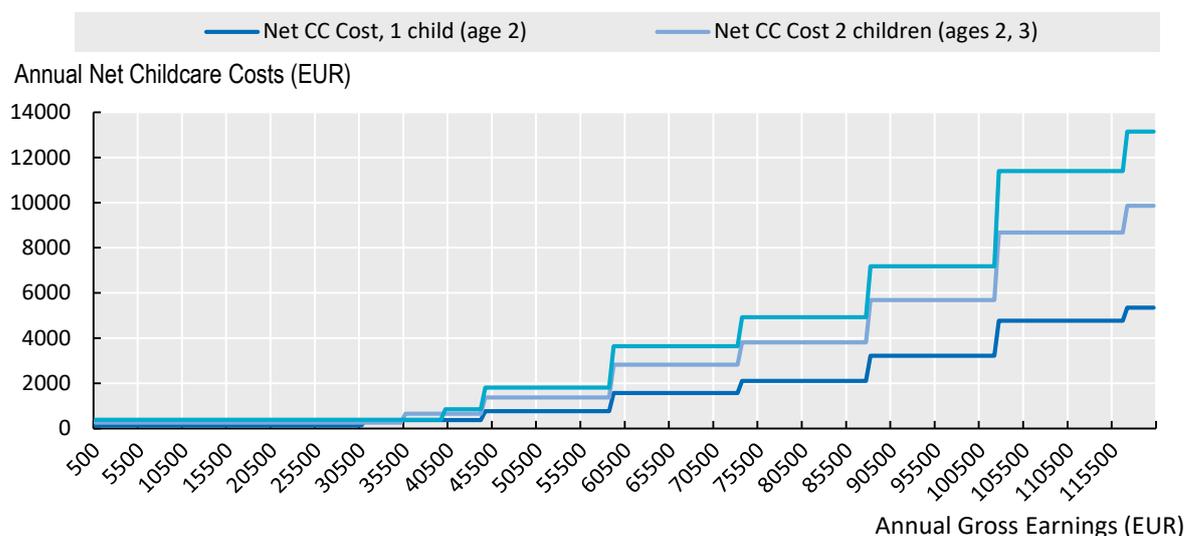
EUR 5 400/ year. The maximum amount applies to the whole family (in case of expenses for several children) and not per child.

#### 5.5.3. *Variation by income*

No

#### 5.5.4. *Impact on overall income tax calculation*

It reduces the adjusted taxable income on which tax rates are applied.

**Figure 4 – Cost of Childcare by gross earnings**

Note: Figures for lone parent aged 40.

### **COVID-19 measures (Not currently implemented in TaxBEN model)**

Due to the COVID19 crisis, schools and childcare facilities were closed from 16 March to 24 May 2020 and the childcare cost has been set to 0 for the parents during this period.

From 25 May 2020, corresponding to the resumption of educational activities in the primary schools and the childcare facilities (with appropriate measures to respect the physical distance) to 15 July 2020, the scale of the participation of the parents for childcare for children not attending school applies again. For children attending school, the childcare cost remains at 0.

## **6. In-work benefits**

Code in the OECD tax-benefit model: [\[ \]](#)

A tax credit for employees exists (see section 8.1.4.), nevertheless this tax credit is not exclusively targeted to employees. Taxpayers with replacement income like unemployment benefit or pension are also eligible to such a tax credit.

## **7. Social security contributions and payroll taxes**

### **7.1. Social security contributions (Cotisations sociales)**

Variable names: [\[SOCSEC\\_p; SOCSEC\\_s; SSCR\\_p; SSCR\\_s\]](#)

Wage earners pay 3,05% sickness scheme contributions and 8% pension scheme contributions on their gross earnings between EUR 2 141.99 per month (EUR 25 703.88 per year) and EUR 10 709.97 per month (EUR 128 519.64 per year). For replacement earnings, sickness insurance contribution rate is 2,80%.

Long term care insurance is financed by special contribution of 1,4% levied on professional earnings, replacement earnings and income from property (an amount of 1/4 of the social minimum reference salary is not taken into account for EUR 535.50 per month in 2020).

**Compulsory social security contributions to schemes operated within the government sector in 2020**

Type of household	Employer's share (%)	Employee's share (%)	Ceiling on contributions (in EUR/month)
a) Pension and disability insurance	8	8	10 709.97
b) Health insurance	3,05	3,05	Same ceilings as a)
payment in kind	2,80	2,80	
sickness benefit	0,25	0,25	
c) Dependency insurance		1,40	No ceiling, but monthly disregarded amount of 535.50
d) Health in the workplace	0,11		
e) Accident insurance <sup>5</sup>	0.75 <sup>6</sup>		Same ceilings as a)
f) Employers' mutual insurance company	1,85% on average <sup>7</sup>		Same ceilings as a)

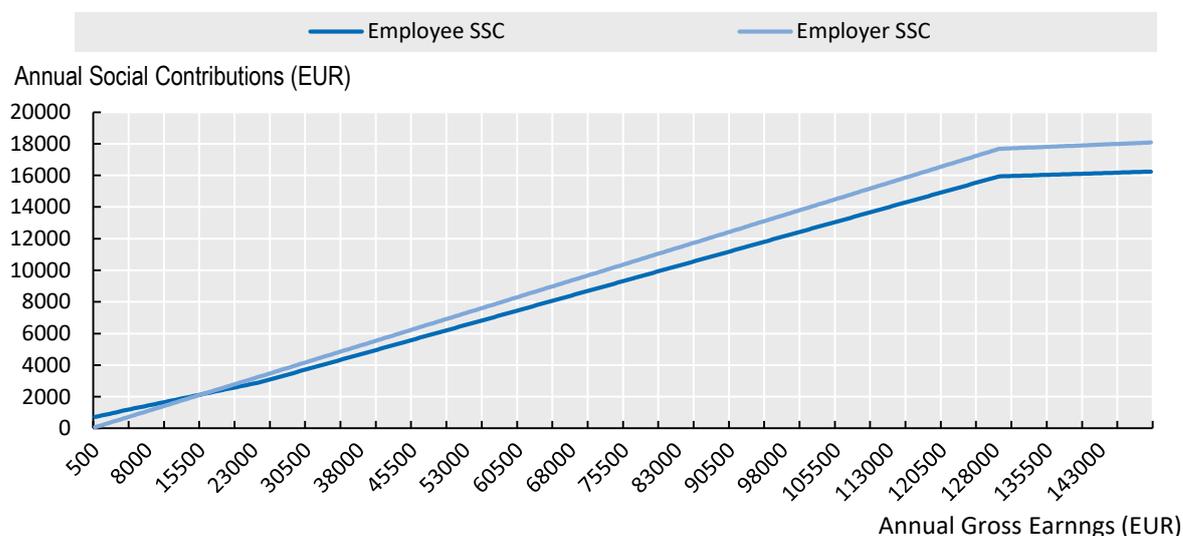
**7.2. Non-tax compulsory employee payment (*Cotisations en faveur de la Chambre des salariés*)**

All employees and retirees in Luxembourg (with the exception of public officials) have to belong to the Chamber of Employees ("Chambre des salariés") regardless of their nationality or place of residence. Annual dues are automatically withheld by the employer or by the Pension Insurance which allow the Chamber to carry out its various activities and missions. In 2020 the same amounts than those fixed for the period 2009-2019 have been applied. The contributions is at EUR 31/year for every employee who earns a gross monthly salary of EUR 300 or more and this contribution is included in the calculations. There are reduced contributions of EUR 10 for employees with lower levels of earnings and EUR 4 for apprentices. This non-tax compulsory employee payment is withheld by the employers jointly with the withholding tax on salaries.

<sup>5</sup> From 2011 on, the accident insurance contribution rate is the same for all risk classes.

<sup>6</sup> Since 2019, this rate is multiplied by a bonus/malus factor.

<sup>7</sup> Rate varies according to the previous financial absenteeism rate of the firm.

**Figure 5 – Social Security Contributions by gross earnings**

Note: All figures for 40-year old one-earner couple with 2 children (ages 4 and 6).

## 8. Taxes

Luxembourg has a progressive tax scheme with 23 rates varying between 0 and 42 per cent since 2017. Tax calculation is based on the splitting method. Spouses and partners are taxed jointly on their income. Since 2018, married couples have the option to fill separate tax returns.

### 8.1. Personal income tax (*Impôt sur le revenu des personnes physiques*)

Code in the OECD tax-benefit model: [\[INC\\_TAX\]](#)

#### 8.1.1. Tax allowances

- Professional expenses are deductible with a minimum of EUR 540. This minimum is deductible by default if there are no greater expenses. For income from REVIS (SA), the tax allowance on professional expenses amounts to EUR 300. Someone who is receiving SA and is working at the same time is eligible for the tax allowances of EUR 540 and 300. In this case, the total tax allowance amounts to EUR 840. However, the amount of each tax allowance cannot exceed the amount of the related income.
- Like other taxpayers, wage-earners having no special expenses (interest charges, insurance premiums or contributions other than for social security) may take a standard deduction of EUR 480 for special expenses. Social security contributions are deductible in their entirety, except long term care insurance.
- If both spouses have earned income and are taxed jointly, they qualify for an earned income allowance of EUR 4500 per year. The taxpayer obtains, on request,

abatement on the taxable income for child care expenses (abatement for inevitable extraordinary charges). The amount of the abatement corresponds to the part of the extraordinary charges exceeding the following percentages of taxable income.

Taxable income (EUR per year)	Class 1	Class 1A or Class 2					
		Number of children					
		0	1	2	3	4	5
< 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
> 60 000	10%	9%	7%	5%	3%	1%	0

- The taxpayer can also obtain a standard abatement for childminding expenses of EUR 5 400 per year. In this case the taxpayer has to renounce to the abatement for inevitable extraordinary charges for child care expenses. The standard abatement cannot exceed the amount of the real expenses nor EUR 450 per month.

These tax credits are not modelled in TaxBen:

- The taxpayer can also obtain an allowance for extraordinary expenses for children not living in the household of EUR 4 020/year.
- Mortgage interest paid on an owner-occupied dwelling is deductible up to EUR 2 000/year in the first 5 years; up to EUR 1 500/year in the 5 following years; and up to EUR 1 000/year for the remaining term of the loan.
- The tax allowance for home purchase saving plans is EUR 1 344/year for young taxpayers (under 40 years old) and EUR 672/year for the other taxpayers.
- The tax allowance for complementary pension schemes is limited to EUR 3 200/year.
- A EUR 5 000 tax allowance will be granted for the purchase of an electric or hydrogen-powered car and EUR 2 500 for rechargeable hybrid cars. The tax allowance is EUR 300 for the purchase of a pedelec or bicycle.

### 8.1.2. Tax base

Taxable income is rounded to the nearest lower multiple of EUR 50 before applying the tax schedule.

### 8.1.3. Income tax schedule

Income tax is determined on the basis of the following schedule (amounts in EUR/year):

<b>Tax rate</b>	<b>Taxable income/year</b>
0 % for the portion of income less than	11 265
8 % for the portion of income between	11 265,00 and 13 137 ,00
9 % for the portion of income between	13 137 ,00 and 15 009 ,00
10 % for the portion of income between	15 009 ,00 and 16 881 ,00
11 % for the portion of income between	16 881 ,00 and 18 753 ,00
12 % for the portion of income between	18 753 ,00 and 20 625 ,00
14 % for the portion of income between	20 625 ,00 and 22 569 ,00
16 % for the portion of income between	22 569 ,00 and 24 513 ,00
18 % for the portion of income between	24 513 ,00 and 26 457 ,00
20 % for the portion of income between	26 457 ,00 and 28 401 ,00
22 % for the portion of income between	28 401 ,00 and 30 345,00
24 % for the portion of income between	30 345,00 and 32 289 ,00
26 % for the portion of income between	32 289 ,00 and 34 233 ,00
28 % for the portion of income between	34 233 ,00 and 36 177 ,00
30 % for the portion of income between	36 177 ,00 and 38 121 ,00
32% for the portion of income between	38 121 ,00 and 40 065 ,00
34% for the portion of income between	40 065 ,00 and 42 009 ,00
36% for the portion of income between	42 009 ,00 and 43 953 ,00
38% for the portion of income exceeding	43 953 and 45 897
39% for the portion of income between	45 897 and 100 002
40% for the portion of income between	100 002 and 150 000
41% for the portion of income between	150 000 and 200 004
42% for the portion of income exceeding	200 004

- Single persons' taxable income (class 1) is taxed directly using the schedule.
- For couples taxable income is first halved. The tax liability is then calculated as for single persons, but the tax actually paid is double this amount (tax class 2).
- For widow(er)s, taxpayers with a dependent child allowance and persons over 64 years of age (class 1A), tax is calculated as follows: the schedule is applied to adjusted taxable income reduced by half of the difference between that amount and EUR 45 060/year, with the marginal tax rate capped at 39 %, for the portion of income between EUR 37 842/year and EUR 100 002/year, at 40% for the portion of income between EUR 100

002/year and EUR 150 000/year, 41% for the portion of income between EUR 150 000/year and EUR 200 004/year and at 42% for the portion of income exceeding EUR 200 004/year.

- Income tax is rounded down to the nearest EUR.

#### 8.1.4. *Tax credits*

##### **Tax credit for employees**

The tax credit for employees, self-employed people and pensioners increases progressively until it is capped at EUR 600 per year for taxpayers earning between EUR 11 265/year and EUR 40 000/year. For taxpayers earning between EUR 40 000/year and 80 000/year, the tax credit will decline progressively. Taxpayers earning more than EUR 80 000/year will not benefit anymore from the tax credit.

The formula to apply for employees are as follows:

- For an annual gross wage (sickness, maternity, parental leave and unemployment benefits are considered like a wage in the personal income tax law) between EUR 936/year and EUR 11 265/year, the annual tax credit is equal to EUR  $[300 + (\text{annual gross wage} - 936) * 0,029]$ /year;
- For an annual gross wage between EUR 11 266/year and EUR 40 000/year, the annual tax credit is equal to EUR 600 per year;
- For an annual gross wage between EUR 40 001/year and EUR 79 999/year, the annual tax credit is equal to EUR  $[600 - (\text{annual gross wage} - 40 000) * 0,015]$ /year.

The “allocation d’inclusion” from the Social inclusion income (REVIS) is not eligible for this tax credit

The tax credit is individual. So, if there are two wage earners in a family, both of them receive a tax credit. Further, this tax credit is refundable (non-wastable).

Code in the OECD tax-benefit model: [\[WORK\\_CR\]](#)

##### **Tax credit for single parents with children**

The tax credit for single parents with children is equal to EUR 1 500 per year for taxpayers with taxable income up to EUR 35 000/year. For taxpayers with taxable income between EUR 35 000/year and EUR 105 000/year, the tax credit declines progressively: for them, the formula to apply is as follows: EUR  $[1875 - (\text{taxable income} * (750/70 000))]$ /year. For taxpayers with taxable income more than EUR 105 000/year, the tax credit is equal to EUR 750/year. This tax credit is refundable (non-wastable).

Code in the OECD tax-benefit model: [\[LP\\_CR\]](#)

##### **Tax credit for social minimum wage earners**

A new tax credit for social minimum wage earners was introduced in January 2019. The tax credit is fixed to EUR 70 per month for employees in a full-time job earning a monthly gross wage (sickness, maternity, parental leave and unemployment benefits are considered like a wage in the personal income tax law) between EUR 1 500 and EUR 2 500. For employees in a full-time job with monthly gross wages between EUR 2 500 and EUR 3 000, the tax credit

declines progressively: for them, the formula to apply is as follows: EUR  $[(70/500) * (3000 - \text{monthly wage})]$ . For employees in a part-time job, the gross wage is first estimated as if they work full-time (multiply by 2 if employees work 50% of full-time hours) to verify if they are entitled to the tax credit applying the same rules than the ones for the employees in a full-time job. For employees in a part-time job, the tax credit is proportional to the working time. Employees in a full-time job with monthly gross wages higher than EUR 3 000 or employees in a part-time job (50% of full-time hours) with monthly gross wages higher than EUR 1 500 will not benefit anymore from the tax credit. This tax credit comes on top of the already existing tax credit for employees.

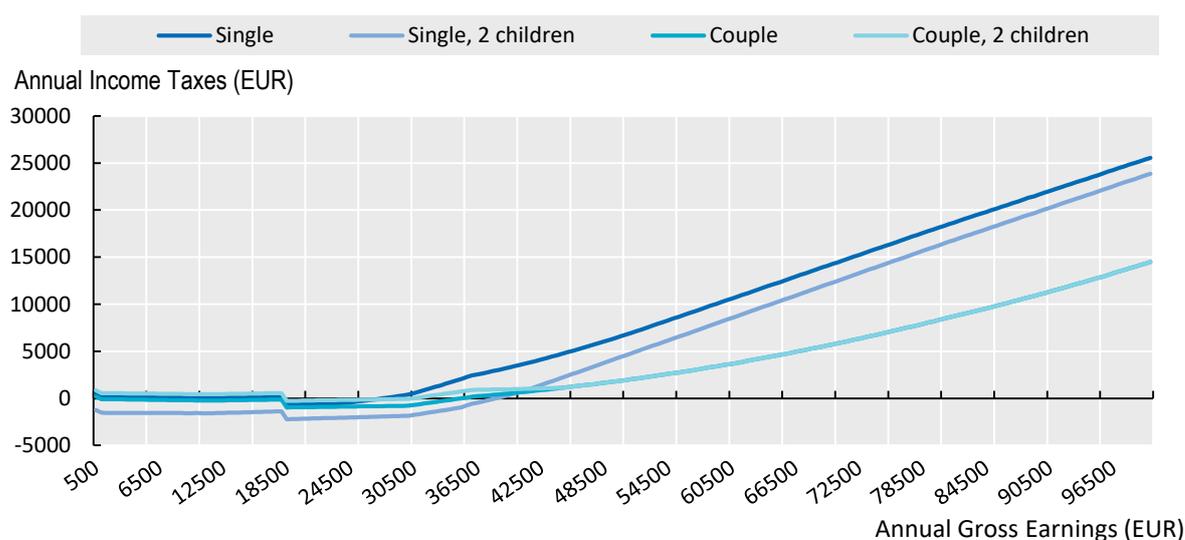
## 8.2. Solidarity surtax (*Impôt de solidarité*)

Variable names: [SURTAX]

Income tax as determined by the applicable schedules is subject to a 7 % “solidarity” surtax to finance the unemployment insurance scheme. The rate is 9% for the taxable income exceeding 150.000€/year (tax classes 1 and 1a), respectively 300.000€/year (tax class 2).

Solidarity surtax is rounded down to the nearest EUR.

**Figure 6 – Income Taxes by gross earnings**



Note: All adults are 40 years old. Children, if present, are 4 and 6. In case of couples, spouse does not work and receives SA, which is included in taxable income.

## 9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Luxembourg in 2020 (see figure below). TaxBEN by default produces the following output: 1) net household incomes (**black line**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (users are free to select many of these circumstances). The model and the related web calculator is accessible from the [project website](#). The figure below shows

output for a two-adult family with two children (adults are both 40 years old whereas children are 4 and 6 years old respectively) and four different scenarios:

- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record (in months), for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas show the following household income components: **GROSS** = gross earnings; **UB** = unemployment benefits; **SA** = social assistance / guaranteed minimum income benefits; **HB** = housing benefits; **FB** = family benefits; **IW** = in-work benefits; **SSC** = social security contributions; **IT** = income tax. Note that these components may be the result of the aggregation of more than one benefit/tax into a composite category. Please refer to the sections above for the benefits/taxes included in each category.

Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

**Panel A** assumes that one adult family member (the so-called ‘second adult’ using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (the so-called ‘first adult’) is employed full-time throughout the entire year at different earnings levels ranging between 0 and 200% of the average wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits (again, e.g. because they have expired) but claiming social assistance or guaranteed minimum income benefits, as applicable.

**Panels B to D** assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The x-axis in Panel B measures the time of benefit receipt, starting from the first month. The x-axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2<sup>nd</sup> month of unemployment benefit receipt. In Panel B and D, previous earnings are assumed to be equal to the average wage.

**Figure 7. Selected output from the OECD tax-benefit model**

Couple with two children



Source: Calculations based on the OECD tax-benefit model.

## Annex : Programs not currently implemented

### 1.1. *Sickness Benefit (Indemnité pécuniaire de maladie)*

#### 1.1.1. *Entitlement and eligibility conditions*

No minimum period of work or insurance required, except in case of cessation of the labour contract: 6 months of insurance. Periods of unemployment or parental leave during which no contribution has been paid for the sickness benefits in cash are not taken into account when calculating the 6 months period.

#### 1.1.2. *Benefit amounts*

Recipients receive the full wage which they earned at the time of occurrence of the incapacity for work. This is computed as the highest wage during one of the last 3 months before the occurrence of the incapacity as well as the average wage accessories and supplements during the 12 months preceding the occurrence of the incapacity.

For a full-time job, the monthly benefit cannot be lower than the social minimum wage (salaire social minimum) (EUR 2,089.75) and may not exceed five times the social minimum wage (EUR 10,448.75). Part-time work reduces these limits proportionally.

#### 1.1.3. *Benefit duration*

There is no waiting period for receiving benefits, which are provided for a maximum of 78 weeks within a 104-week period, or until the granting of an invalidity pension (pension d'invalidité), whichever duration is shorter. The maximum of 78 weeks includes the period during which the worker benefits from the mandatory employer sick pay. It is important to distinguish the duration of incapacity to work due to illness or injury and the benefit duration of sickness benefit.

An employer must continue to pay his employee in case of sick leave due to illness or an occupational accident and must do so until the end of the month during which the 77th day of sick leave occurs, during a reference period of 18 successive months.

This is the principle of "continuation of pay" (or "Lohnfortzahlung"). *See point 1.2 Mandatory employer sick pay*

As from the month following the 77th day of sick leave, the National Health Fund (Caisse Nationale de Santé - CNS) takes over from the employer and pays sickness benefits to the employee on sick leave. From this point on, the employer no longer has to pay a salary to the employee, for as long as the employee receives benefits from the CNS.

Reference: <https://guichet.public.lu/en/entreprises/sante-securite/accident-maladie/incapacite-travail/continuation-salaire.html>

### **COVID-19 measures (Not currently implemented in TaxBEN model)**

Due to the exceptional situation caused by the spread of Covid-19, the government decided to **exclude the days of incapacity for work due to illness since the beginning of the state of crisis in the calculation of the 78-week limit.**

In practical terms, this means that any days of incapacity for work **between 18 March 2020 and the end of the state of crisis are not taken into account for the calculation of this limit.**

Furthermore, when an employee is unable to work due to illness, the employer must continue to pay the concerned **employee's salary** for a period determined by law. Up to 80 % will then be reimbursed to the employer. After this statutory period, the financial compensation is directly covered by the sickness and maternity insurance.

The government has decided that as of **1 April 2020** and until **the last day of the month in which the state of crisis ends (30 June 2020)**, all days of incapacity for work due to illness or for a gradual return to work will be **charged directly to the sickness and maternity insurance.**

Employers will therefore **not need to continue to pay wages for the days of incapacity to work** due to illness or for a gradual return to work **between 1 April and the last day of the month in which the state of crisis ends (30 June 2020).**

The insured person must therefore **send their medical certificate** to the National Health Fund (CNS) as soon as possible, and **no later than the 3<sup>rd</sup> day of incapacity for work.**

Reference: <https://guichet.public.lu/en/actualites/2020/avril/21-incapacite-travail.html>

#### 1.1.4. *Means test*

No

#### 1.1.5. *Tax treatment*

Same as wages except that the sickness benefit is not subject to the employer's accident insurance.

#### 1.1.6. *Interactions with other components of the tax-benefit system*

Sickness benefit is a replacement income or a replacement earning. That means that it is part of the means test definition of the social inclusion income, of the housing benefit, of the cost-of-living benefit.

#### 1.1.7. *Combining benefit receipt and employment/starting a new job*

No cumulation possible

## **1.2. Mandatory employer sick pay (Conservation légale de la rémunération en cas d'incapacité de travail pour maladie)**

### **1.2.1. Entitlement and eligibility conditions**

No minimum period of work or insurance required, except in case of cessation of the labour contract: 6 months of insurance. Periods of unemployment or parental leave during which no contribution has been paid for the sickness benefits in cash are not taken into account when calculating the 6 month period.

### **1.2.2. Benefit amounts**

100% of insured worker's salary.

80% of the worker's salary plus the employers social contributions for health, pension and injury are reimbursed to the employers by a social protection scheme called "Mutualité des employeurs".

### **1.2.3. Benefit duration**

77 calendar days, with no waiting period. The 77 calendar days are calculated on a reference period of 18 successive calendar months. After this duration, the worker benefits from the sickness benefit (See point 1.2 Sickness benefit).

### **1.2.4. Means test**

No

### **1.2.5. Tax treatment**

Same as wages

### **1.2.6. Interactions with other components of the tax-benefit system**

Same as wages

### **1.2.7. Combining benefit receipt and employment/starting a new job**

No cumulation possible

## **1.3. Benefit for the leave for family reasons (Indemnité pécuniaire pour congé pour raisons familiales)**

### **1.3.1. Entitlement and eligibility conditions**

No minimum period of work or insurance required, except in case of cessation of the labour contract: 6 months of insurance. Periods of unemployment or parental leave during which no contribution has been paid for the sickness benefits in cash are not taken into account when calculating the 6 month period.

Leave for family reasons is granted on presentation of a medical certificate attesting:

- the illness, accident or other pressing health issue affecting the child;
- the mandatory presence of the parent with the ill child;
- the duration of their presence with the ill child.

### 1.3.2. *Benefit amounts*

100% of insured worker's salary paid by the employer.

For a full-time job, the monthly benefit cannot be lower than the social minimum wage (salaire social minimum) (EUR 2,089.75) and may not exceed five times the social minimum wage (EUR 10,448.75). Part-time work reduces these limits proportionally.

The period of leave for family reasons is treated as a period of sick leave due to illness or accident.

During the period of leave for family reasons, the employee benefits from the continuation of pay by the employer.

The employers' mutual insurance scheme reimburses the employer/self-employed worker the total wage costs (gross salary + employers' costs) during the period of continuation of pay.

The reimbursement takes place if the leave for family reasons was declared by the worker to the competent health fund and by the employer to the Joint Social Security Centre (CCSS).

If the insured person is no longer entitled to a salary by the employer (>77 sick days within a period of 18 months), the benefits are paid directly by the National Health Fund (CNS).

### 1.3.3. *Benefit duration*

The amount of leave for family reasons depends on the age of the child and is structured as follows:

12 days of leave per child if the child is less than 4 years old;

18 days of leave per child if the child is between 4 and less than 13 years old;

5 days of leave per child if the child is between 13 and 18 years of age, inclusive, and provided the child is hospitalised.

The duration of leave for family reasons can be extended for children with a disease or a disability of exceptional seriousness defined as: cancer with progressive phase, diseases requiring hospitalization in an acute service for minimum two weeks. The extension is limited to 52 weeks on a reference period of 104 weeks.

#### **COVID-19 measures (Not currently implemented in TaxBEN model)**

Due to the exceptional situation caused by the spread of Covid-19 and due to the closure of schools and childcare facilities, the government decided to put in place a special leave for family reasons for workers that have to take care for their children (less than 13 years old).

To do this, the regulation concerning the “ordinary” leave for family reasons has been adapted several times, in particular by adding this item: “measures of isolation, of eviction or of home care of children for urgent public health reasons decided by the competent authorities to tackle the spread of an epidemic” in the definition of a “disease or a disability of exceptional seriousness”. According to this new item with effect from the 14 March 2020, parents of children less than 13 years old could benefit from this leave until the reopening of schools and childcare facilities.

This special leave for family reasons does not affect the balance of “ordinary” leave for family reasons. As well as for the ordinary leave for family reasons, **both parents** (or spouse) **cannot take leave for family reasons at the same time (alternatively is possible)**. If **anyone else is able to look after the child**, whether a relative or another member of the household, for example because they have the benefit of short-time work (as from 30 March 2020) during the period for which leave for family reasons is being requested, **the parent cannot benefit from leave for family reasons**.

Since the 25 May 2020, corresponding to the progressive resumption of educational activities in the primary schools and the childcare facilities (with appropriate measures to respect the physical distance), the special leave for family reasons is renewed until 15 July 2020 for workers of a child falling under one **of the following categories**:

- a child **born on or after 1 September 2015** who is **dependent on the applicant**;
- a **child under the age of 13 normally enrolled in school, whose school is closed** or whose **classes remain suspended** for reasons directly related to the health crisis, **or who cannot be cared for by any school or childcare facility** due to the implementation of a plan for alternating the care of pupils or the application of imposed barrier measures;
- a **vulnerable child**. [According to the CSMI recommendations](#), a child is deemed vulnerable if it is suffering from a **respiratory or cardiac pathology** or is **immuno-depressed**.

#### 1.3.4. *Means test*

No

#### 1.3.5. *Tax treatment*

Same as wages

#### 1.3.6. *Interactions with other components of the tax-benefit system*

Same as wages

#### 1.3.7. *Combining benefit receipt and employment/starting a new job*

No cumulation possible

## 1.4. Short-time work compensation schemes (*Indemnité de chômage partiel*)

### 1.4.1. Entitlement and eligibility conditions

In order to protect jobs and thus **prevent redundancies**, the Luxembourg labour law allows businesses, under certain conditions, to resort to **various short-time working (*chômage partiel*) schemes** depending on the nature of the difficulties encountered:

Short time-working due to structural economic problems

Short time-working due cyclical economic problems

Short time-working due to economic dependence

Short-time working in the event of force majeure.

To be eligible for short-time working, the company must be established in Luxembourg, hold, where applicable, a business permit granted by the competent authority, and undertake to not make any employee redundant for economic reasons.

Short-time working schemes can be applied to all employees with their place of work in Luxembourg, whether they are under a permanent employment contract or a fixed-term employment contract. Short-time working schemes **cannot be applied to apprentices, to temporary workers or workers having tendered/received their notice.**

#### **COVID-19 measures (Not currently implemented in TaxBEN model)**

Under the "force majeure / coronavirus" short-time working scheme (18 March through 30 June 2020), apprentices were also eligible for short-time working with respect to the share of the salary to be borne by the employer. Temporary work agencies were also eligible with regard to their employees whose assignment contract is ongoing but who can no longer carry out their activity.

### 1.4.2. Benefit amounts

**During the period of short-time work, the employer pays each employee:**

- **the salary due for every hour worked;**
- **and a compensatory allowance corresponding to:**
- **at least 80 % of the normal salary for inactive hours;**
- **at least 90 % of the normal salary if the worker has participated in continuous vocational training during inactive hours.**

The State reimburses the employer the compensatory allowance (80 % or 90 % of the gross salary) normally received by each employee for the inactive hours up to a maximum of 250 % of the social minimum wage (the balance of the salary remains payable by the employer).

#### **COVID-19 measures (Not currently implemented in TaxBEN model)**

Under the "force majeure / coronavirus" short-time working scheme, **the State covers the compensatory allowance up to 80 % of the salaries. The reimbursement is limited to**

**250 % of the social minimum wage** for unskilled workers aged 18 or over. This compensation **may not be less than the amount of the social minimum wage for unskilled workers.**

Any difference between the amount of the compensation and the social minimum wage for unskilled workers will be borne by the Luxembourg Employment Fund until 31 December 2020.

#### 1.4.3. *Benefit duration*

The permission to make use of the provisions concerning short-time working can only be granted for a maximum of **1,022 hours per year and per full-time working employee.** For persons working on a part-time basis, the limit of 1,022 hours are pro-rated.

#### 1.4.4. *Means test*

The benefit is not means-tested.

#### 1.4.5. *Tax treatment*

Employers who resort to short-time working have to continue to pay the following to the competent public administrations:

social contributions (the employer's and the employee's share) and withholding tax on salaries paid for hours worked;

social contributions (the employer's and the employee's share) and withholding tax on the compensatory allowance paid for inactive hours, with the exception of the following employer's contributions: accident insurance contributions and family benefits.

#### 1.4.6. *Interactions with other components of the tax-benefit system*

Short-time work compensation is a replacement income meaning that

#### 1.4.7. *Combining benefit receipt and employment/starting a new job*

In the event of an employee on sick leave during the period of short-time work, the employer continues to pay the salary as in any case of incapacity for work.

#### **COVID-19 measures (Not currently implemented in TaxBEN model)**

From 1 April until 30 June, the health insurance will directly cover incapacity for work for employees and non-employees. Consequently, these days of sick leave will be reimbursed

at **100%** by the CNS (and no longer at 80% by the Mutualité des Employeurs) and these days will not be taken into account in determining the risk class of companies with the Mutualité des Employeurs.

Given the current context of the COVID-19 pandemic, it is exceptionally possible for an employee, on the basis of an agreement with the employer and the social security, to interrupt a parental leave currently in progress in the event of a professional obligation and the need to return to work.

Employees who are on part-time parental leave or split parental leave can benefit from short-time working for the working hours normally worked.

**COVID-19 measures (Not currently implemented in TaxBEN model)**

An interruption of the parental leave is possible as it is considered to be motivated by an external cause. The compensation already received will not be refunded. The portion of parental leave remaining at the time of interruption may, subject to the employer's agreement, be taken at the end of the interruption.

Companies have the possibility to temporarily place one or more of their employees at the disposal of another employer (prêt temporaire de main-d'oeuvres). In these arrangements, employees will continue to be paid by their primary employer (lender), and the temporary employer reimburses the primary employer for their employees' salaries plus a portion of their benefits programmes.