

LUXEMBOURG

1. Overview of the system

A contributory means-tested unemployment insurance can be paid for a maximum period of 12 months. A social assistance (*Revenu Minimum Garanti*) is available only for people over 30 or for families with children. These social assistance recipients can also receive a housing aid. Universal family benefits are paid to families with dependent children. The tax system is progressive and based on the family income. The 1995 APW earnings level is LF 1 029 800.

2. Unemployment insurance

2.1 *Conditions for receipt*

Unemployment insurance is compulsory. The claimant has to be registered at the employment exchange, and to be available and fit for work. It is available for people aged between 16 and 64. Moreover, the claimant needs to be resident in Luxembourg.

2.1.1 *Employment conditions*

The claimant must have been employed for 26 weeks in the 12 months preceding unemployment.

2.1.2 *Contribution conditions*

Coincides with the employment condition.

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of gross benefit*

A benefit of 80 per cent of the average wage during the three months immediately preceding unemployment is increased to 85 per cent if the beneficiary has dependent children. The maximum benefit level amounts to 250 per cent of the social minimum reference salary for the first six months, 200 per cent afterwards. The social minimum reference salary is LF 43 744 per month (LF 524 928 per year) (1.5.1995).

2.2.2 *Income and earnings disregards*

The benefit is income tested against income earned by the other partner in a couple. The gross benefit amount is reduced by 50 per cent of the amount by which the other partner's gross earnings exceed 250 per cent of the social minimum wage. The benefit is not reduced if the beneficiary has earnings, but the benefit ceases if the beneficiary starts to work more than 16 hours.

2.3 *Tax treatment of benefit*

Unemployment benefits are taxable, but the sickness contribution is not paid. The tax base is the same as that for earned income, including the work related expenses allowance.

2.4 *Benefit duration*

The maximum benefit period is 12 months in a 24-month period. The benefit is paid from the first day of unemployment; there is no waiting period.

2.5 *Treatment of particular groups*

2.5.1 *Young persons*

Unemployed under 21 with completed education or less than 26 working weeks in the last 12 months are eligible for a benefit amounting to 70 per cent of the minimum wage. The benefit for unemployed under 18 years of age (16-17 years.) is 40 per cent of the minimum wage. The benefit is payable for 365 days (7 days per week) after a 39-week waiting period. The minimum wage for young workers was LF 524 928 in 1995.

2.5.2 *Older workers*

Unemployed aged 50 years old and over qualify for prolongation of the benefit period by 12, 9 or 6 months if the contribution period is 30, 25 or 20 years respectively. After 57 years of age, early retirement is possible.

3. **Unemployment assistance**

None.

4. **Social assistance**

The main element is the *Revenu Minimum Garanti* (RMG).

4.1 Conditions for receipt

The recipient must have been resident in Luxembourg during at least 10 out of the last 20 years, and be:

- older than 30 and available for the labour market;
- sick or infirm and unable to work;
- aged over 60;
- living with dependent children or a dependent infirm person.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

The benefit is payable at a nationally uniform level in the form of a guaranteed income scheme, differentiated by family type.

Family type	RMG rate (LF per month) (1.5.1995)	Percentage of first adult payment
First adult	31 165	100
Second adult	15 582	50
Supplementary adult	8 918	28.6
Child supplement	4 587	14.7
Impotency supplement	14 153	45.5

4.2.2 Income and earnings disregards

Gross income from whatever source is included in the income test, but 20 per cent of the applicable standard payment rate is disregarded. Family benefits are not considered as income for the social assistance means test.

4.3 Tax treatment of benefit

Taxable. Only the pension contribution is payable.

4.4 Benefit duration

Indefinite. There is no waiting period.

4.5 *Treatment of particular groups*

4.5.1 *Young persons*

People under 30 do not qualify unless they have dependent children.

4.5.2 *Older workers*

There is no special treatment except that after 60 years the condition to be available for the labour market is no longer necessary.

5. **Housing benefits**

5.1 *Conditions for receipt*

To be receiving social assistance.

5.2 *Calculation of benefit amount*

It is the difference between the rent and 10 per cent of the amount of RMG payable. Maximum payments are LF 5 000 per month.

5.3 *Tax treatment of benefit*

Taxable. Only the pension contribution is payable.

6. **Family benefits**

6.1 *Conditions for receipt*

Family benefits are paid only to families with dependent children under 18 (or under 27 if still in education).

6.2 *Calculation of benefit amount*

6.2.1 *Calculation of gross benefit*

Family size	Rate (LF per month) (1.5.1995)
One child	3 292
Two children	8 885
Three children	18 012
Supplement per child from the fourth one	9 126
Supplement per child aged 6-11	535
Supplement per child 12+	1 605

6.2.2 *Income and earnings disregards*

Not means-tested.

6.3 *Tax treatment of benefit*

Family benefits are not taxable.

6.4 *Treatment of particular groups*

None.

7. **Child-care benefits**

7.1 *Conditions for receipt*

Each child under 2 years of age qualifies. The parent must not be in the labour force and must look after the child at home. No employment conditions apply if the family income with one child is less than 3 times the social minimum referency salary (LF 131 232); with two children, less than 4 times the social minimum referency salary (LF 174 976); with three or more children, less than 5 times the social minimum referency salary (LF 218 719). There are no salary conditions if one parent has a half-time job; benefit amount is 50 per cent.

7.2 *Calculation of benefit amount*

7.2.1 *Calculation of gross benefit*

– 100 per cent: LF 16 058 per month;

- 50 per cent: LF 8 029 per month.

7.2.2 Income and earnings disregards

None.

7.3 Tax treatment of benefit

Not taxable.

7.4 Treatment of particular groups

None.

8. Employment-conditional benefits

None.

9. Lone-parent benefits

There are no lone parent benefits, but lone parents can obtain a LF 77 400 tax allowance (see Section 10).

10. Tax system

Luxembourg has a progressive tax scheme with 18 rates varying between 0 and 50 per cent in 1995. Tax calculation is based on the splitting method.

10.1 Income tax rate schedule

10.1.1 Tax allowances and credits

Tax allowances:

- work related expenses are deductible with a minimum of LF 21 000;
- travel expenses are deductible with a minimum of LF 15 600 and a maximum of LF 117 000;
- general deductions are possible at LF 18 000;
- salaried employees' have a special deduction at LF 24 000;

- social security contributions are deductible in their entirety.

Tax credits:

- lone parents can obtain a LF 77 400 deduction of their taxable income.

10.1.2 *The definition of taxable income*

The definition depends on family type, see Section 10.1.3.

10.1.3 *The tax schedule*

Taxable income (LF per year)	Tax rate (%)
0 - 243 600	0
243 600 - 354 000	10
354 000 - 423 600	20
423 600 - 492 000	22
492 000 - 561 600	24
561 600 - 630 600	26
630 600 - 699 000	28
699 000 - 767 400	30
767 400 - 837 600	32
837 600 - 906 000	34
906 000 - 975 000	36
975 000 - 1 043 400	38
1 043 400 - 1 112 400	40
1 112 400 - 1 182 000	42
1 182 000 - 1 249 800	44
1 249 800 - 1 249 800	46
1 318 800 - 1 388 400	48
1 388 400+	50

Single persons' taxable income is taxed directly using the schedule. For other family situations, taxable income is adjusted:

- 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.
- for lone parents the taxable income is reduced with 25 per cent of its complement to LF 1 461 600.

The calculated tax liability is reduced for families with children. If the adjusted taxable income does not exceed LF 764 790 (half of LF 1 213 800 for couples) the reduction for the first child equals the difference between the tax calculated on the adjusted taxable income and the tax calculated on the adjusted taxable income after a deduction of LF 243 600 of the gross earnings. Otherwise the reduction is LF 60 000. The reduction for other children than the first corresponds per child to the tax reduction for the first child.

Note that no local tax is paid by the worker.

10.2 Treatment of family income

The tax unit is the family.

10.3 Social security contribution schedule

Employees pay 4.5 per cent sickness and 8 per cent age pension scheme contributions of their gross earnings between LF 43 744 per month (LF 524 928 per year) and LF 218 719 per month (LF 2 624 628 per year) (1.5.1995).

Employees:	2.575%	+	8%	
Functionaries:	2.5%	+	4%	
Independent:	5.15%	+	16%	+ 0.6% for family benefits
Pensioners:	2.5%			

The unemployment insurance scheme is financed through a 2.5 per cent surtax on central government income tax liability.

11. Part-time work

11.1 Special benefit rules for part-time work

Unemployment insurance benefits are reduced if part-time earnings exceed a certain percentage of the social minimum wage. Part of the earnings from part-time employment are disregarded in the social assistance means test for a period of 2 years.

11.2 Special tax and social security contribution rules for part-time work

None.

12. Policy developments

12.1 Policy changes introduced in the last year

None.

12.2 *Policy changes announced*

None.

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The annual tax/benefit position of an unemployed single person, 1995 (Francs)

	Unemployment insurance: max. 12 months	Social assistance: unlimited
A. Taxable benefits		
Means-tested benefits		
Unemployment insurance	823 840	0
Social assistance	0	373 980
Housing benefit	0	60 000
Non-means tested benefits		
Total taxable benefits	823 840	433 980
B. Income tax and social security contributions		
Income tax allowances	104 907	39 000
Taxable income	719 000	395 000
Income tax	99 804	19 240
Surtax	2 495	481
Social security contributions	65 907	0
Total income tax and social security contributions	172 561	19 721
C. Non-taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Family benefits		
Total non-taxable benefits	0	0
D. Net income out of work (A-B+C)	655 634	414 259
E. Net income in work	765 985	765 985
F. Net replacement rate (D/E) (per cent)	86	54

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The annual tax/benefit position of an unemployed married couple with two children, 1995 (Francs)

	Unemployment insurance: max. 12 months	Social assistance: unlimited
A. Taxable benefits		
Means-tested benefits		
Unemployment insurance	875 330	
Social assistance		671 052
Housing benefit		60 000
Non-means tested benefits		
Total taxable benefits	875 330	731 052
B. Income tax and social security contributions		
Income tax allowances	109 026	97 484
Taxable income	766 000	634 000
Income tax	0	0
Surtax	0	0
Social security contributions	70 026	58 484
Total income tax and social security contributions	70 026	58 484
C. Non-taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Family benefits	106 620	106 620
Total non-taxable benefits	106 620	106 620
D. Net income out of work (A-B+C)	911 924	779 188
E. Net income in work	1 007 695	1 007 695
F. Net replacement rate (D/E) (per cent)	90	77

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The annual tax/benefit position of a lone parent with two children, 1995 (Francs)

	Unemployment insurance: max. 12 months	Social assistance: unlimited
A. Taxable benefits		
Means-tested benefits		
Unemployment insurance	875 330	
Social assistance	0	484 068
Housing benefit	0	60 000
Non-means tested benefits		
Total taxable benefits	875 330	544 068
B. Income tax and social security contributions		
Income tax allowances	186 426	159 925
Taxable income	689 000	38 400
Income tax	0	0
Surtax	0	0
Social security contributions	70 026	43 525
Total income tax and social security contributions	70 026	43 525
C. Non-taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Family benefits	106 620	106 620
Total non-taxable benefits	106 620	106 620
D. Net income out of work (A-B+C)	911 924	607 163
E. Net income in work	1 007 695	1 007 695
F. Net replacement rate (D/E) (per cent)	90	60