

LUXEMBOURG

1999

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 1999 APW earnings level is LUF 1 134 550.

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 LUF 46 878 per month (LUF 562 536 per year) (1.1.1999).

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. 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 without completed education 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 LUF 46 181/month in 1999.

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 RMG is available to people over 30 who are unable to work, or for adults raising children. There are two distinct types of benefits.

- The “indemnité d’insertion” for recipients who are able to work 40 hours a week;
- The “complément” for those who are not able to work 40 hours a week or those who lose their jobs.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

The “indemnité d’insertion” is equivalent to the minimum wage and is paid to a person who works 40 hours per week. The minimum wage in 1999 is LUF 46 878 per month, for a full time job.

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

Family type	RMG rate (LUF per month) (1.2.1999)	Percentage of first adult payment
First adult	33 392	100
Second adult	16 696	50
Supplementary adult	9 552	28.6
Child supplement	3 040	9.1
Impotency supplement	19 752	59.2

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. The full social security contributions are payable with the “indemnité d’insertion” whereas for the complément only the sickness 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 or are responsible for a dependent person or are unable to work.

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 LUF 5 000 per month.

5.3 Tax treatment of benefit

Taxable, but the liability is zero (see 10.1.3). 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 (LUF per month)
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	(1.2.1999)
One child	5 371
Two children	13 102
Three children	24 459
Supplement per child from the fourth one	11 351
Supplement per child aged 6-11	548
Supplement per child 12+	1 646

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 reference salary (LUF 140 635); with two children, less than 4 times the social minimum reference salary (LUF 187 513); with three or more children, less than 5 times the social minimum reference salary (LUF 234 392). 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: LUF 16 460 per month;
- 50 per cent: LUF 8 230 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 LUF 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 1997. Tax calculation is based on the splitting method.

10.1 *Income tax rate schedule*

10.1.1 *Tax allowances and credits*

Tax allowances:

- professional expenses are deductible with a minimum of LUF 21 000. This minimum is deductible by default if there are not greater expenses;
- employee's travel expenses (to go to work) are deductible with a minimum of LUF 15 600 and a maximum of LUF 117 000 (the minimum amount is applied here);
- general deductions are possible at LUF 18 000;
- salaried employees' have a special deduction at LUF 24 000;
- social security contributions are deductible in their entirety.
- if both members of the couple are employees they have an extra professional allowance of LUF 180 000.
- lone parents can obtain a LUF 77 400 deduction of their taxable income.

Tax credits:

- children tax credit: LUF 36 000 (plus 2.5% of LUF 36 000 per child)

10.1.2 *The definition of taxable income*

The definition depends on family type, see Section 10.1.3.

Taxable income is rounded to the nearest lower multiple of 1000 before applying the tax schedule.

10.1.3 *The tax schedule*

Taxable income (LUF per year)	Tax rate (%)
0 - 270 000	0
270 000 - 354 000	6
354 000 - 423 000	16
423 000 - 492 000	18
492 000 - 561 000	20
561 000 - 630 000	22
630 000 - 699 000	24
699 000 - 768 000	26
768 000 - 837 000	28
837 000 - 906 000	30
906 000 - 975 000	32
975 000 - 1 044 000	34
1 044 000 - 1 113 000	36
1 113 000 - 1 182 000	38
1 182 000 - 1 251 000	40
1 251 000 - 1 320 000	42
1 320 000 - 2 640 000	44
2 640 000+	46

Single persons' taxable income is taxed directly using the schedule. If taxable income is less than LUF 360 000 per year, then the tax liability is zero. 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. If the taxable income is less than LUF 640 000 per year, the tax liability is zero.

- for lone parents the taxable income is reduced with 25 per cent of its complement to LUF 1 620 000. If the taxable income before this reduction is less than LUF 640 000, the tax liability is zero.

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 2.69/ 4.67 (workers) per cent sickness and 8 per cent age pension scheme contributions of their gross earnings between LUF 46 878 per month (LUF 562 536 per year) and LUF 234 392 per month (LUF 2 812 704 per year).

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 1999

(in Luxembourg francs)

	Unemployment insurance: max. 12 months	Social assistance: unlimited
A. Taxable benefits		
Means-tested benefits		
Unemployment insurance	907 640	0
Social assistance	0	400 704
Housing benefit	0	60 000
Non-means tested benefits		
Total taxable benefits	907 640	460 704
B. Income tax and social security contributions		
Income tax allowances	153 998	57 713
Taxable income	753 000	402 000
Income tax (before credits)	88 080	12 720
Surtax	2 202	318
Social security contributions	114 998	18 713
Total income tax and social security contributions	205 280	31 751
C. Non-taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Family benefits	0	0
Total non-taxable benefits	0	0
D. Net income out of work (A-B+C)	702 360	428 953
E. Net income in work	853 534.5	853 534.5
F. Net replacement rate (D/E) (per cent)	82	50

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The annual tax/benefit position of an unemployed married couple with two children (6 and 4 years old)

1999

(in Luxembourg francs)

	Unemployment insurance: max. 12 months	Social assistance: unlimited
A. Taxable benefits		
Means-tested benefits		
Unemployment insurance	964 367	
Social assistance		674 016
Housing benefit		60 000
Non-means tested benefits		
Total taxable benefits	964 367	734 016
B. Income tax and social security contributions		
Income tax allowances	161 185	70 477
Taxable income	803 000	663 000
Income tax (before credits)	25 280	7 380
Surtax	632	185
Children's tax credit	25 912	7 565
Social security contributions	122 185	31 477
Total income tax and social security contributions	122 185	31 477
C. Non-taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Family benefits	163 800	163 800
Total non-taxable benefits	163 800	163 800
D. Net income out of work (A-B+C)	1 005 982	866 339
E. Net income in work	1 154 603	1 154 603
F. Net replacement rate (D/E) (per cent)	87	75

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The annual tax/benefit position of a lone parent with two children (6 and 4 years old)

1999

(in Luxembourg francs)

	Unemployment insurance: max. 12 months	Social assistance: unlimited
A. Taxable benefits		
Means-tested benefits		
Unemployment insurance	964 367	
Social assistance	0	473 664
Housing benefit	0	60 000
Non-means tested benefits		
Total taxable benefits	964 367	533 664
B. Income tax and social security contributions		
Income tax allowances	238 585	138 520
Taxable income	725 782	0
Income tax (before credits)	30 350	0
Surtax	759	0
Childrens tax credit	31 109	0
Social security contributions	122 185	22 120
Total income tax and social security contributions	122 185	22 120
C. Non-taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Family benefits	163 800	163 800
Total non-taxable benefits	163 800	163 800
D. Net income out of work (A-B+C)	1 005 982	675 344
E. Net income in work	1 154 603	1 154 603
F. Net replacement rate (D/E) (per cent)	87	59