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## LUXEMBOURG 2004

### 1. Overview of the system

A contributory unemployment insurance can be paid for maximal 365 days in a period of 24 months. A social assistance (Revenu Minimum Garanti) is available only for people over 25 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.

#### 1.1. *Average worker wage (AW)*

The 2004 AW earnings level is EUR 40 575.

### 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*

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

#### 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 EUR 1 402,96 (EUR 1 438,01 since 1 October 2004) per month (EUR 16 940,67 per year).

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2.2.2 *Income and earnings disregards*

The benefit is not income tested any more.

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.

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. Social contributions are due for health care, long term care and for pensions (old age, disability and survivors) (see section 10.3).

2.4 *Benefit duration*

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.

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 workers was EUR 1 402,96 (EUR 1 438,01 since 1 October 2004) per month.

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**

Aide à la mobilité géographique des demandeurs d'emploi

Aide au réemploi

Aide à la création d'entreprises par les chômeurs indemnisés

Aide à la création d'emploi d'utilité socio-économique

Mesures tendant à promouvoir l'emploi des jeunes

Mesures de rééducation professionnelle et d'initiation professionnelle

Indemnisation du chômage partiel

Aides à l'embauche de chômeurs âgés et de chômeurs de longue durée

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#### 4. Social assistance

The main element is the *Guaranteed Minimum Income* (RMG, guaranteed minimum income).

The RMG consist in granting

- either an “indemnité d’insertion”(integration benefit),
- or an “allocation complémentaire” (complementary benefit),
- or an “indemnité d’insertion” and an “allocation complémentaire”.

##### 4.1 *Conditions for receipt*

Each person aged between 25 and 60 years who is able to work full-time has to apply for an “indemnité d’insertion”. The “indemnité d’insertion” is a gross income either paid for

- the preparation and assisted search for a paid work,
- community service work in the public sector,
- a professional training in the private sector.

People raising children, in charge of a dependent person or unable to work full-time may benefit of a reduction of the working hours.

The “allocation complémentaire” is intended to complete the difference between the maximum of the RMG due according to the family type (see section 4.2.1.) and the gross income of the family.

##### 4.2 *Calculation of benefit amount*

###### 4.2.1 *Calculation of gross benefit*

The gross amount of the “indemnité d’insertion” is equivalent to the hourly rate of the minimum wage multiplied by the number of hours the person has to supply. The minimum wage in 2004 is EUR 1 402,96 (EUR 1 438,01 since 1 October 2004) per month, for a full-time job (40 hours a week/173 hours a month).

The amount of the “allocation complémentaire” is the difference between the RMG below and the amount defined in section 4.2.2.

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Family type	RMG (EUR per month)		Percentage of first adult payment
	1 January 2004	1 October 2004	
First adult	999.35	1024,31	100
Second adult	499.70	512,19	50
Supplementary adult	285.92	293,06	28.6
Child supplement	90.94	93,21	9.1
Impotency supplement*)	553.96	567,80	55.4

\*) *the impotency supplement is stopped when the person starts receiving long term care benefits. Overtime the impotency supplement is replaced completely by long term care benefits.*

#### 4.2.2 *Income and earnings disregards*

Gross income from whatever source is included in the income test, but an amount of 30 per cent of the RMG by family type is disregarded. Family benefits are not considered as income for the social assistance means test.

*In practice 130 % of RMG (according to family type) is the income test limit. The “allocation complémentaire” which is a complement to the personal gross income is due as long as a person is eligible for granting for the RMG. No assistance is paid once the 130% limit is passed.*

#### 4.3 *Tax treatment of benefit*

Taxable. Full social security contributions are payable with the “indemnité d’insertion” whereas for the “allocation complémentaire” in general only the sickness contributions and long term care contributions are payable. Pensions contributions are paid by the “Fonds National de solidarité” for those beneficiaries of an “allocation complémentaire” 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.

#### 4.4 *Benefit duration*

The “allocation complémentaire” stops as soon as gross income of the household exceeds 130% of RMG.

The contract of the “indemnité d’insertion” is not renewed if gross income exceeds 130% of RMG.

#### 4.5 *Treatment of particular groups*

##### 4.5.1 *Young persons*

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

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4.5.2 *Older workers*

Old age workers over 60 years do not need to be available for the labour market any longer. Their revenue is totally based on the “allocation complémentaire”.

**5. Housing benefits**

**5.1 Conditions for receipt**

To be receiving social assistance.

**5.2 Calculation of benefit amount**

It is included in the “allocation complémentaire”. The income test limit of the RMG according to family type is raised by the amount of the difference between the rent and 10 per cent of the predefined income test limit. Maximum payments are EUR 123.95 per month.

*In practice, the maximum is always applicable.*

Sickness contribution and long term care contribution are payable.

**5.4 Allocation de chauffage.**

The Fonds National de Solidarité will grant on demand for the year 2004 a heating allowance for every resident in Luxembourg, as long as the annual gross income of the family type does not exceed the limits fixed below :

The annual gross income limits for 2004 are fixed as :

- 16840.95 euros for single person
- 25258.32 euros for a family type of 2 persons
- 30062.92 euros for a family type of 3 persons
- 34873.74 euros for a family type of 4 persons
- 39765.25 euros for a family type of 5 persons and more.

The heating allowance for 2004 is fixed as :

- 400 euros for a single person
- 500 for a family type of 2 persons
- 600 euros for a family type of 3 persons
- 700 euros for a family type of 4 persons
- 800 euros for a family type of 5 persons and more.

In case the above gross income limit is exceeded, the benefit of a reduced heating allowance is possible.

The heating allowance will be reduced by the equivalent amount exceeding the fixed income limits.

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The heating allowance is tax and Sickness contribution and long term care contribution free.

## **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 (EUR per month)	
	1 January 2004	1 October 2004
One child	176.67	181,08
Two children	419.50	429,98
Three children	764.07	783,18
Supplement per child from the fourth one	344.33	352,94
Supplement per child aged 6-11	15.39	15,78
Supplement per child 12+	46.18	47,34

#### **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.

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## 7. Garde d'enfant pour les enfants d'âge préscolaire / Childcare for pre-school children

L'école est obligatoire à partir de 4 ans. L'éducation précoce est introduite progressivement dans les communes depuis 1998 et s'adresse aux enfants âgés de 3 ans révolus. La fréquentation en est facultative et gratuite pour les parents.

Pour l'année scolaire 2003-2004, 65 % des enfants concernés habitant dans des communes offrant l'éducation précoce ont été inscrits ce qui fait 3535 enfants.

Hors accueil des enfants âgés de 3 à 4 ans à l'enseignement précoce, on peut estimer que 15% des enfants âgés de moins de 4 ans sont accueillis de jours hors de leur domicile. La part des enfants gardés à domicile est difficile à estimer, puisque la loi ne prévoit qu'un agrément pour les personnes qui gardent plus que 3 enfants. En outre, ce taux ne tient pas compte des enfants qui sont gardés à domicile par le personnel domestique.

### 7.1 *Frais de garde d'enfant payés par les parents/ Out-of-pocket childcare fees paid by parents*

Dans une crèche privée non conventionnée par l'Etat le prix à payer par les parents pour un placement à plein-temps évoluent dans une fourchette de prix variant de 650 € à 950 €. Le prix d'un placement à plein-temps dans une famille privée se situe entre 250€ et 850 €. Le salaire mensuel brut minimum est de 1402,96 € au 1er janvier 2004.

Dans les crèches conventionnées par l'Etat, sur les places louées par l'Etat dans les crèches commerciales, dans les crèches municipales et dans certaines crèches d'entreprise (notamment les crèches des hôpitaux et les crèches pour le personnel de l'Etat), le prix à payer par les parents est calculé en fonction de l'étendue de la prise en charge par semaine, des revenus du ménage et du nombre d'enfants à charge

Le coût (hors frais de construction du bâtiment) des crèches est calculé chaque année tenant compte des frais suivants:

- frais de personnel
- frais d'entretien
- frais de consultants externes
- frais d'équipement et de réparations
- frais de comptabilité/salaires.

Ces frais sont alors adaptés à l'aide de l'indice prévisible des prix à la consommation de l'année en question (estimation fournie par l'inspection générale des finances) et donnent un prix arithmétique qui est

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de 1200 € par mois en 2005 pour le placement 5 jours entiers par semaines d'un enfant non scolarisé et de 952 € par mois pour le placement 5 jours par semaine en dehors des heures de classe d'un enfant scolarisé.

De ce prix est déduit forfaitairement 12% pour tenir compte des absences de récréation et de maladie, de sorte que le "prix de référence" est de 1056 € par mois pour un enfant non scolarisé et de 838 € par mois pour un enfant scolarisé.

Les parents paient alors un pourcentage de ce prix, en fonction de leur revenu semi-net (brut - cotisations sociales) et du nombre d'enfants qu'ils ont à charge.

Ce prix "barémique" peut être modulé en fonction du nombre de demi-journées par semaine de placement. Ex . tous les matins = 5/10ièmes du prix barémique, 2 journées entières = 4/10ièmes du prix barémique.

Pour les familles avec un enfant la formule est la suivante:

$$Y=A(\text{Exp}(B*X)-1)$$
$$A=38/(108/38-2)$$
$$B=\text{Ln}(108/38-1)/619,73$$
$$X=\text{revenu familial semi-net divisé par } 636,26$$

Y=pourcentage du prix de référence à payer

Les frais de garde sont déductibles des impôts pour la portion de frais qui dépasse les dépenses considérées comme non extraordinaires pour le niveau de revenu qu'ont les parents. Le département d'aide sociale soutient financièrement les cas de rigueur (56 cas en 2004) qui ne sont pas à même de financer seuls leurs frais de garde ( p.ex. ceux des parents à revenus réduits qui n'ont pas pu trouver une place dans une crèche conventionnée).

## 7.2 *Allocations de garde d'enfant / Child-care benefits*

Il n'existe pas d'allocations en espèces reçues par les parents dont les enfants sont inscrits dans un système de garde d'enfant

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## 8. Employment-conditional benefits

### 8.1 *parental leave, introduced from 1 January 1999.*

#### 8.1.1 *Conditions of receipt*

The Law of 12 February 1999 creates an individual (and non-transferable) entitlement to take six months parental leave full-time or 12 months half-time for any parent raising a child under five at home. The parent must have been working without interruption for at least 20 hours/week for the same employer in the year preceding the child's birth immediately. The employment contract is simply interrupted, with the worker returning to his job once the period of parental leave has elapsed.

#### 8.1.2 *Calculation of benefit amount*

##### 8.1.2.1 Calculation of gross benefit

- 100 per cent: EUR 1 692.66 (since 1 October 2004: EUR 1 734,95) per month.
- 50 per cent: EUR 846.33 (since 1 October 2004: EUR 867,48) per month.

##### 8.1.2.2 Income and earnings disregards

None.

#### 8.1.3 *Tax treatment of benefit*

- Not taxable. The sickness and the long term care contributions are payable whereas the old age contribution is financed by the State.

## 9. Lone-parent benefits

There are no lone parent benefits, but lone parents can obtain a EUR 1 920 tax allowance (see section 10).

## 10. Tax system

Luxembourg has a progressive tax scheme with 17 rates varying between 0 and 38 per cent in 2003. 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 EUR 540. This minimum is deductible by default if there are not greater expenses. For income from RMG (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.
- Employee's travel expenses (to go to work) are deductible with a minimum of EUR 396 and a maximum of EUR 2 970 (the minimum amount is applied here).
- General deductions are possible at EUR 480.
- Salaried employees' have a special deduction at EUR 600.
- Social security contributions are deductible in their entirety, except long term care insurance.
- If both members of the couple are employees they have an extra professional allowance of EUR 4 500.
- Lone parents can obtain a EUR 1 920 deduction of their taxable income.
- The taxpayer obtains, on request, an 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)	Number of children				
	1	2	3	4	5
< 10 000	0	0	0	0	0
10 000 – 20 000	0	0	0	0	0
20 000 – 30 000	2	0	0	0	0
30 000 – 40 000	4	2	0	0	0
40 000 – 50 000	5	3	1	0	0
50 000 – 60 000	6	4	2	0	0
> 60 000	7	5	3	1	0

- The taxpayer can also obtain a standard abatement for childminding expenses of EUR 3 600 per year. In this case the taxpayer has to renounce to the abatement for inevitable extraordinary

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charges for child care expenses. The standard abatement cannot exceed the amount of the real expenses nor EUR 300 per month.

Tax credits:

- Children tax credit: EUR 900 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 EUR 50 before applying the tax schedule.

### 10.1.3 *The tax schedule*

Taxable income (EUR per year)	Tax rate (%)
0 – 9 750	0
9 750 – 11 400	8
11 400 – 13 050	10
13 050 – 14 700	12
14 700 – 16 350	14
16 350 – 18 000	16
18 000 – 19 650	18
19 650 – 21 300	20
21 300 – 22 950	22
22 950 – 24 600	24
24 600 – 26 250	26
26 250 – 27 900	28
27 900 – 29 550	30
29 550 – 31 200	32
31 200 – 32 850	34
32 850 – 34 500	36
> 34 500	38

- Single persons' taxable income 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 lone parents the taxable income is reduced with 50 per cent of its complement to EUR 39 000, insofar as the marginal tax rate does not exceed 38 per cent (tax class 1a).
- Note that there is a 2.5 per cent surtax on central government income tax liability, but no local tax is paid by the worker.

## 10.2 *Treatment of family income*

The tax unit is the family.

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**10.3 Social security contribution schedule**

Employees pay 2.65 / 4.90 (workers) per cent sickness and 8 per cent age pension scheme contributions on their gross earnings between EUR 1 402,96 (EUR 1 402.96 since 1 October 2004) per month (EUR 16 940,67 per year) and EUR 7 014.79 (EUR 7 190,06 since 1 October 2004) per month (EUR 84 703,4 per year). For replacement earnings, sickness insurance contribution rate is 2.55 per cent<sup>1</sup>. Long term care insurance is financed by special contribution of 1 per cent 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 350.74, since 1 October 2004: EUR 359,50).

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.

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<sup>1</sup> Le taux de cotisation pour l'assurance maladie se compose d'un taux pour prestations en nature identique pour tous les assurés (5,10 % en 2002, c. à d. 2,55 % part assuré et 2,55 % part patronale). Pour les salariés ayant droit à des prestations en espèces (indemnités pécuniaires de maladie) une majoration de ce taux est pratiquée. Pour les salariés bénéficiant en cas de maladie de la continuation légale ou conventionnelle de la rémunération pendant le mois en cours et les trois mois suivants la majoration est de 0,20% (0,10% part assuré et 0,10% part patronale) tandis que pour les salariés ne bénéficiant pas de la continuation de la rémunération en cas de maladie le taux est majoré de 4,70% (2,35 % part assuré et 2,35 % part patronale) ce qui nous amène à une cotisation totale assurance maladie part assuré de 4,90%. Ce taux est applicable pour le calcul des charges du travailleur (AW), mais pour calculer la charge en cotisation du bénéficiaire de chômage ainsi que du bénéficiaire RMG le taux pour prestations en nature (2,55%) est applicable. (message électronique du 27 octobre 2003, Astrid Breyer)

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## **12. Policy developments**

### ***12.1 Policy changes introduced in the last year***

The insurance to the general pension scheme is continued for those beneficiaries of an “allocation complémentaire who have already a period of insurance of at least 25 years (Loi du 8 juin 2004 portant modification de la loi modifiée du 29 avril 1999 portant creation d’un droit à un revenu minimum garanti (Mémorial A-2004-91 du 17.06.2004)

### ***12.2 Policy changes announced***