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## LUXEMBOURG 2002

### 1. Overview of the system

A contributory means-tested 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. The 2002 AW earnings level is EUR 38 442.

### 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 EUR 1 290.22 (EUR 1 322.47 since 1 June 2002) per month (EUR 15 708.39 per year).

#### 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 reduced if the beneficiary has earnings that exceed 10 per cent of the maximum benefit due.

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**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. The social contribution rate on unemployment benefits is 2.55 per cent.

**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 1 290.22 (EUR 1 322.47 since 1 June 2002) /month in 2002.

**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 25 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 for whom no adequate working measure can be found.

We do not consider the “indemnité d’insertion” in our study, but only the regular Social Assistance, RMG.

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**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 2002 is EUR 1 290.22 (EUR 1 322.47 since 1 June 2002) 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 (EUR per month)		Percentage of first adult payment
	1 January 2002	1 June 2002	
First adult	919.05	942.03	100
Second adult	459.50	470.98	50
Supplementary adult	262.92	269.50	28.6
Child supplement	83.60	85.69	9.1
Impotency supplement	527.27	540.45	57.4

**4.2.2 Income and earnings disregards**

Gross income from whatever source is included in the income test, but 30 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 25 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.

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**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 EUR 123.95 per month.

**5.3 Tax treatment of benefit**

Taxable, but the liability is zero (see section 10.1.3).

**5.4 Allocation de chauffage.**

The Fonds National de Solidarité will grant on demand for the year 2002 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 2002 are fixed as :

- 15392.20 euros for single person
- 23088.30 euros for a family type of 2 persons
- 27475.01 euros for a family type of 3 persons
- 31871.02 euros for a family type of 4 persons
- 36333.09 euros for a family type of 5 persons and more.

The heating allowance for 2002 is fixed as :

- 396.63 euros for a single person
- 495.79 euros for a family type of 2 persons
- 594.94 euros for a family type of 3 persons
- 694.10 euros for a family type of 4 persons
- 793.26 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.

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 2002	1 June 2002
One child	168.15	172.36
Two children	399.28	409.28
Three children	727.26	745.44
Supplement per child from the fourth one	327.74	335.92
Supplement per child aged 6-11	14.65	15.02
Supplement per child 12+	43.96	45.06

#### 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 (EUR 3 870.65, since 1 June 2002: EUR 3 967.41); with two children, less than 4 times the social minimum reference salary (EUR 5 160.87, since 1 June 2002: EUR 5 289.88); with three or more children, less than 5 times the social minimum reference salary (EUR 6 451.09, since 1 June 2002: EUR 6 612.35). 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: EUR 439.41 (since 1 June 2002: EUR 450.39) per month.

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- 50 per cent: EUR 219.67 (since 1 June 2002: EUR 225.17) 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 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 2002. 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.

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- 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 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

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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.

## **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 1 290.22 (EUR 1 322.47 since 1 June 2002) per month (EUR 15 708.39 per year) and EUR 6 451.09 (EUR 6 612.35 since 1 June 2002) per month (EUR 78 541.90 per year). 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 322.55, since 1 June 2002: EUR 330.62).

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.

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**12.2**     *Policy changes announced*

None.