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## LUXEMBOURG 2003

### 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. The 2003 AW earnings level is EUR 39 587.

### 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 1 368,74 (EUR 1 402,96 since 1 August 2003) per month (EUR 16 595,98 per year).

#### 2.2.2 *Income and earnings disregards*

The benefit is not income tested any more. The income test was abolished by the law of 25 July 2002 (*l'incapacité de travail et la réinsertion professionnelle*, Mém. A 2002-076 du 30 juillet 2002, p. 1667).

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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 1 368,74 (EUR 1 402,96 since 1 August 2003) 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

Aide au réemploi

Aide à la création d'entreprise

Le stage d'insertion

Le contrat d'auxiliaire temporaire

Le stage de réinsertion professionnelle

Aide 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

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

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

#### **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 2003 is EUR 1 368,74 (EUR 1 402,96 since 1 August 2003) 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.

Family type	RMG (EUR per month)		Percentage of first adult payment
	1 January 2003	1 August 2003	
First adult	974.97	999.35	100
Second adult	487.52	499.70	50
Supplementary adult	278.94	285.92	28.6
Child supplement	88.72	90.94	9.1
Impotency supplement	540.45	553.96	55.4

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**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” only the sickness contributions and long term care contributions are payable.

**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.

**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.

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*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 2003 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 2003 are fixed as :

- 16430.20 euros for single person
- 24642.27 euros for a family type of 2 persons
- 29329.69 euros for a family type of 3 persons
- 34023.17 euros for a family type of 4 persons
- 38795.38 euros for a family type of 5 persons and more.

The heating allowance for 2003 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.

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 2003	1 August 2003
One child	172.36	176.67
Two children	409.28	419.50

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Three children	745.44	764.07
Supplement per child from the fourth one	335.92	344.33
Supplement per child aged 6-11	15.02	15.39
Supplement per child 12+	45.06	46.18

**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 4 106.22, since 1 August 2003: EUR 4 208.88); with two children, less than 4 times the social minimum reference salary (EUR 5 474.96, since 1 August 2003: EUR 5 611.84); with three or more children, less than 5 times the social minimum reference salary (EUR 6 843.70, since 1 August 2003: EUR 7 014.80). 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 450.39 (since 1 August 2003: EUR 461.65) per month.
- 50 per cent: EUR 225.17 (since 1 August 2003: EUR 230.79) 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.

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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 1 651.38 (since 1 August 2003: EUR 1 692.66) per month.
- 50 per cent: EUR 825.69 (since 1 August 2003: EUR 846.33) 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

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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 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 (%)
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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.

## 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 1 368,74 (EUR 1 402.96 since 1 August 2003) per month (EUR 16 424.8 per year) and EUR 6 843.70 (EUR 7 014.79 since 1 August 2003) per month (EUR 82 124.4 per year). For replacement earnings, sickness insurance contribution rate is 2.55 per cent<sup>1</sup>. Long

<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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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 342.18, since 1 August 2003: EUR 350.74).

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***

The income earned by the other partner in a couple is no longer tested to obtain unemployment assistance since the introduction of the Loi du 25 juillet 2002 concernant l'incapacité de travail et la réinsertion professionnelle, Mém. A 2002-076 du 30 juillet 2002, p. 1667)

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