

THE OECD TAX-BENEFIT MODEL FOR LUXEMBOURG

Description of policy rules for 2018



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Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

The OECD tax-benefit model for Luxembourg: Policy rules in 2018

1. Reference wages

The estimated 2018 average wage [**AW**] is EUR 59 749.9.¹

The minimum wage [**MIN**] in 2018 is EUR 1 998.59 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2017) by 12, i.e. EUR 1 998.59 * 12 = EUR 23 983.08

2. Unemployment benefits

2.1. Unemployment insurance (*Indemnité de chômage*)

Code in the OECD tax-benefit model:² [**UI_p**; **UI_s**]

This is an unemployment insurance benefit. It is non-contributory, not means-tested and taxable. 

2.1.1. Eligibility conditions

Age: It is available for people aged between 16 and 64.

Contribution/employment history: The claimant must have been employed for 26 weeks in the 12 months preceding unemployment at least for 16 hours a week.

If rights to unemployment benefits are exhausted, right opens once again after a period of 12 months which follows the end of rights if the condition of 26 weeks employment in that period is once again fulfilled..

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.³ The benefit claimant has to:

1. be registered at the employment exchange (ADEM, “Agence pour le développement de l’emploi”);
2. be available and fit for work;

¹ AW refers to the Average Wage estimated by the [Centre for Tax Policy and Administration](#). For more information on methodology see the latest [Taxing Wages publication](#).

² The variable names ending with “_p” refer to the first adult (so-called “principal” adult) whereas those ending with “_s” are related to the spouse.

³ Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

3. be involuntarily unemployed;
4. be resident in Luxembourg.

2.1.2. *Benefit amount*

Calculation base:

The amount of benefits is calculated as a percentage of the average wage during the three months immediately preceding unemployment.

Benefit amount: A benefit of 80% of the average wage during the three months immediately preceding unemployment is increased to 85% if the beneficiary has dependent children. The maximum benefit level amounts to 250% of the social minimum reference salary for the first nine months, 200% afterwards (the 200% also applied in case of an extension of unemployment allowances, however this last **temporary** provision started 17th August 2010 and expired on 31st December 2017). The social minimum reference salary is EUR 1 998.59 per month as of 1st January 2018 (EUR 23 983.08 for the year 2018).

Unemployed aged below 21 with completed education or less than 26 working weeks in the last 12 months are eligible for a benefit amounting up to 70% of the minimum wage. The benefit for unemployed without completed education under 18 years of age (16-17 years) is 40% of the minimum reference wage (not modelled).

2.1.3. *Benefit duration*

The benefit is allocated during an equivalent period of time (calculated in months) as the working period fulfilled during the reference period taking in account for opening the right to unemployment allowance. 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. There may be prolongations for particular groups. Unemployed 50 years old and more qualify for prolongation of the benefit period by 12, 9 or 6 months if the contribution period is 30, 25 or 20 years respectively (with a threshold of 150% of the minimum wage).

After 55 years of age, a prolongation of 6 months is granted without special conditions for unemployed hard-to-employ (not modelled).

Moreover, the following two provisions, which were temporary applied, only from 17th August 2010 to 31st December 2017, are no longer possible since 1 January 2018:

- Unemployed aged 45 years and more, and having 20 years of affiliation at the social security system, qualify for a prolongation of 6 months.
- Unemployed aged less than 65 years, dismissed by a firm with partial unemployment benefits for at least 6 months at the moment of the dismissing, qualify for a prolongation of 6 months. Unemployed aged less than 65 years who lost their job following the giving up of business of the employer (due to death, physical impairment, or bankruptcy), qualify for a prolongation of 6 months (not modelled).

For unemployed aged below 21, the benefit is payable for 365 days (7 days per week) after a waiting period of 26 weeks (completed education period of 9 years at least) or 39 weeks.

2.1.4. Means test

The benefit is not means-tested.

2.1.5. Tax treatment

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 7.).

2.1.6. Interactions with other components of the tax-benefit system

- Situation where entitlement to one benefit affects the amount or entitlement to another benefit:

The amount of unemployment benefits payable is 80% of the gross salary earned however, this rate may be increased to 85% if applicants benefit from family allowances.

- Situation where receipt of one benefit automatically gives entitlement to another:

Non-resident unemployed workers are entitled to family allowances if they benefit from unemployment allowance.

- Situations where receipt of two different benefits is mutually incompatible:

Unemployment benefits are incompatible with invalidity pensions, work-accident pensions, tideover allowances, paid sick leaves as well as paid maternity leaves.

Unemployment benefit is included in the income definition used to calculate “allocation complémentaire”, in the income definition used to calculate “allocation de vie chère” and in the income definition used to calculate housing benefit.

Unemployment benefit is included in the tax base.

As far as unemployment benefit is included in the tax base and that the price that the parents have to pay for childcare is based on the household taxable income, unemployment benefit is interacted with childcare fees.

2.1.7. Combining benefit receipt and employment/starting a new job

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.

3. Social assistance and housing benefits

3.1. Guaranteed minimum income (*Revenu minimum garanti, RMG*)

Code in the OECD tax-benefit model: **[SA]**

This is a non-contributory benefit, means-tested and taxable.

The main element is the Guaranteed Minimum Income (RMG, guaranteed minimum income). The RMG consists in granting :

- either an “indemnité d’insertion” (integration benefit),

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

3.1.1. Eligibility conditions

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 3.1.2) and the gross income of the family.

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

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”.

3.1.2. Benefit amount

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 amount of the “**allocation complémentaire**” is the difference between the RMG below and the amount defined in section 3.1.4.

Family type	RMG (EUR per month) 1 January 2018	Percentage of first adult payment
First adult	1 401.18	100
Second adult	700.63	50
Supplementary adult	400.93	28.6
Child supplement	127.37	9.1

The National Solidarity Fund (Fonds National de Solidarité) will grant on demand for the year 2018 an “**allocation de vie chère**” for every resident in Luxembourg with limited income, as long as the annual gross income of the family type does not exceed the limits fixed below . The annual gross income limits for 2018 are fixed as (divided by 12 for monthly gross income limits):

Family type	Annual gross income limits (EUR per year) 1 January 2018
1 person	24 062,89
2 persons	36 076,33
3 persons	43 284,4
4 persons	50 492,47
5 persons	57 700,54
6 persons	64 908,61
7 persons	72 116,68
8 persons	79 324,75
9 persons	86 532,82
10 persons	93 740,89

The “Allocation de vie chère” for 2018 is fixed as (divided by 12 for monthly amounts) :

- 1 320 EUR/year for a single person
- 1 650 EUR/year for a family type of 2 persons
- 1 980 EUR/year for a family type of 3 persons
- 2 310 EUR/year for a family type of 4 persons
- 2 640 EUR/year for a family type of 5 persons and more.

In case the above annual gross income limit is exceeded by an amount not exceeded the amount of the “allocation de vie chère” corresponding to the family type, the benefit of a reduced allowance is possible. For these cases, the reduced allowance is equal to the gross annual income limit for a family type plus the amount of “the allocation de vie chère” for this family type less the gross annual income of this family type.

Example:

- *Annual allowance for a family of 1 person: 1 320 EUR/year*
- *Annual gross income limit for a family of 1 person: 24 026.89 EUR/year*
- *Annual gross income: 25 000 EUR/year*
- *Reduced monthly allowance will be: $24\ 026.89 + 1\ 320 - 25\ 000 = 346,89$ EUR/year*

3.1.3. Benefit duration

There is no duration limit

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.

3.1.4. Means test

Gross income from whatever source is included in the income test, but an amount of 30% of the RMG by family type is disregarded on earned income, replacement income or pension income. Family benefit, school expenses allowance, “allocation de vie chère”, childcare benefits and tax credits 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.

For the “allocation de vie chère”, the income definition includes all gross income. The “allocation complémentaire”, family benefits, school expenses allowance, cash housing benefits, childcare benefits and tax credits are not considered in the income definition.

3.1.5. Tax treatment

The “indemnité d’insertion” and “allocation complémentaire” are 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.

The “allocation de vie chère” allowance is tax free, sickness contribution free and long term care contribution free.

3.1.6. Interaction with other components of the tax-benefit system

“Indemnités d’insertion” and “allocation complémentaire” are included in the income definition used to calculate “allocation de vie chère” and on the income definition used to calculate housing benefit.

“Allocation de vie chère” is NOT MORE included in the income definition used to calculate housing benefit.

“Indemnités d’insertion” and “allocation complémentaire” are included in the tax base.

3.1.7. Combining benefit receipt and employment/starting a new job

As far as the income from an employment/starting a new job is lower than the RMG (for example a part-time job or a full time job in a large family) the right of the RMG is still open. The same rules apply to the “allocation de vie chère”.

3.2. Housing benefit (*Subvention de loyer*)

Code in the OECD tax-benefit model: [\[HB\]](#)

This is a non-contributory benefit, means-tested and not taxable.

Since the 1st January 2016, a new housing benefit called “subvention de loyer” (rent subsidy) has been introduced. This benefit has been reformed substantially in 2017 and this reform entered in force on 1st January 2018.

3.2.1. Eligibility conditions

The “*subvention de loyer*” concerns households (applicant must be 18 years old and more) living in Luxembourg with low income and who rent or wish to rent a dwelling on the private market (households who rent social housing are excluded from this benefit). Furthermore, the rent must exceed more than 25% of the income and the applicant must not be owner of a dwelling in Luxembourg or abroad.

3.2.2. Benefit amount

The “subvention de loyer” is calculated according to:

- the income of the household,
- the composition of the household,
- and a reference rent the amount of which is depending on the household composition and defined according to the theoretical optimal needs by type of households

According to the household composition and the income, the monthly amount varies between 124 EUR and 273 EUR but may not exceed the rent paid by the household.

Amount as of 1st January 2018

Type of household	Low income threshold (EUR/month)	Reference rent (EUR/month)	Maximum amount of the “ <i>subvention de loyer</i> ” (EUR/month)
1 person	2 500	846	124
Household without children	3 750	927	124
Household with 1 child	4 500	1 089	149
Household with 2 children	5 250	1 249	174
Household with 3 children	6 000	1 463	199
Household with 4 children	6 750	1 816	224
Household with 5 children	7 500	2 034	248
Household with 6 children	8 250	2 170	273
+ for each subsequent child	+ 750	+ 125	+ 0

The amount of « subvention de loyer » is calculated with the following formula:

$SL = Lo - (0,25 \times Y_{net})$ where:

- SL is the amount of the « subvention de loyer »;
- Lo is the reference rent depending on the household composition;
- 0,25 is the reasonable theoretical affordability ratio of the household for the rent;

- Ynet is the income.

3.2.3. *Benefit duration*

No duration limit.

3.2.4. *Means test*

The income represents the sum of:

- the net incomes referred to in article 10 of the modified law of 4th December 1967 on income tax (that means gross income subjected to income tax less professional expenses (minimum of EUR 540 (multiply by 2 in case of two wage earners in the household) or EUR 300 for the RMG/RGPH or any pension (multiply by 2 in case of two pension beneficiaries) less special deductions (minimum of EUR 480 (multiply by 2 only in case of two wage earners in the household))) less social contributions and less income tax;
- parental leave benefit;
- received alimony;
- accident at work pension;
- gross wage for overtime hours worked.

Paid alimony are deducted from the income.

The income of the descendants and ascendants of the applicant who live in the dwelling of the household and which are declared there are to be added to the said sum.

3.2.5. *Tax treatment*

Not taxable

3.2.6. *Interaction with other components of the tax-benefit system*

As no cumulation of the rent subsidy and the rent housing for social assistance recipients (majoration RMG) is possible, only a “subvention de loyer” can be obtained by beneficiaries of the social assistance (RMG or RPGH) in case of a new application or a modification of the financial/family situation as of 1st January 2016. However, beneficiaries of the social assistance (RMG or RPGH) having received the so-called housing benefit for social assistance recipients (majoration RMG) before the introduction of the “subvention de loyer” continue to receive it after the 1st January 2016 as long as no change concerning the family or the financial situation is observed (transitory arrangement).

3.2.7. *Combining benefit receipt and employment/starting a new job*

Yes

4. Family benefits

Code in the OECD tax-benefit model: [\[FB\]](#)

4.1. Family benefit (*allocation pour l'avenir des enfants*)

This is a non-contributory benefit, not means-tested and not taxable.

4.1.1. Eligibility conditions

Family benefits are paid only to families with dependent children under 18 (or under 25 if still in secondary education (“secondaire classique” and “secondaire technique”); higher education, such as university studies, are excluded since 2010).

4.1.2. Benefit amount

New claimants and children living in a one-child family: EUR 265/month

Pre-reform claimants:

Child belonging, before the reform, to a family group of ...	EUR/month
2 children	297,24
3 children	344,46
4 children	368,02
5 children	382,16
6 children	391,58
7 children	398,31
8 children	403,36
9 children	407,29
10 children	410,43
11 children	413,00
12 children	415,14
13 children	416,95
14 children	418,51
15 children	419,85
16 children	421,03
17 children	422,07
18 children	422,99

19 children	423,82
20 children	424,56
21 children	425,24
22 children	425,85
23 children	426,41
24 children	426,92
25 children	427,39

Additional complement for children aged 6 and more (new claimants and pre-reform claimants): EUR 20/month

Additional complement for children aged 12 and more (new claimants and pre-reform claimants): EUR 50/month

4.1.3. Benefit duration

The duration is fixed by the age limit (see 4.1.1.)

4.1.4. Means test

The benefit is not means-tested.

4.1.5. Tax treatment

The benefit is not taxable.

4.1.6. Interaction with other components of the tax-benefit system

Since 2018, the benefit is NOT MORE included in the income definition used to calculate the “allocation de vie chère” and NOT MORE included in the income definition used to calculate the “housing benefit”.

4.1.7. Combining benefit receipt and employment/starting a new job

Yes

4.2. School expenses allowance (Allocation de rentrée scolaire)

Code in the OECD tax-benefit model: [\[school_all\]](#)

This is a non-contributory benefit, not means-tested and not taxable.

4.2.1. Eligibility conditions

Luxembourg also pays a schooling expense allowance in August of each year for all children receiving family benefits aged six and older who is either in the primary school or the secondary school.

4.2.2. *Benefit amount*

For each child over age six, the allowance is 115 EUR/year and 235 EUR/year for each child age 12 or older (divided by 12 for monthly amounts).

4.2.3. *Benefit duration*

As long a child receives family benefits.

4.2.4. *Means test*

Not means-tested.

4.2.5. *Tax treatment*

Non-taxable.

4.2.6. *Interaction with other components of the tax-benefit system*

Since 2018, the school expenses allowance is NOT MORE included in the income definition used to calculate the “allocation de vie chère”.

4.2.7. *Combining benefit receipt and employment/starting a new job*

Yes

4.3. *Tax credit for lone-parent (Crédit d’impôt monoparental)*

A tax credit for lone-parent is available (see section 8.1.4).

5. **Childcare for pre-school children**

The **reference date** for the policy rules described in this section is **January 1, 2018**.

L'école est obligatoire à partir de 4 ans. L'Éducation précoce est destinée aux élèves ayant atteint l'âge de 3 ans.

5.1. *Gross childcare fees*

Code in the OECD tax-benefit model: **[LXcc_cost]**

The government introduced a measure called “childcare-service vouchers” (Chèque-service accueil – CSA) in March 2009. The service voucher is an allowance paid in kind rather than in cash and represents a new type of public benefit for children and their families. The system aims at subsidizing parental financial contribution, encouraging access to non-formal education.

Children are eligible to child care vouchers if they are aged 0-12 or still in primary education. When the scheme was first implemented (March 2009), a condition of residence in Luxembourg was introduced. This condition has just been lifted for September 2016 (billed voted in February 2016).

In March 2009, when the scheme was first implemented, the child care cost was subsidized up to 7.50€ per hour ; the maximum number of hours subsidized was 60 hours

per week. The extent of the subsidy varied according to the taxable income of the household and the rank of the child among siblings eligible to family allowances; each child was however entitled to at least 3 free hours per week. In the context of budget consolidation measures, the government decided to modify the system in 2012, decreasing the maximum value of hourly subsidy (from 7.50€ to 6.00€) for settings in the private sector, and suppressing the three free hours per week for families with income higher than 3.5 times the minimum wage. The last reform of the child-care voucher entered in force in September 2016 with a maximum value of hourly subsidy fixed at EUR 6 for settings in childcare centres (no more differences between public funded and commercial childcare centres) and at EUR 3,75 for settings by childminders and an increase of free hours for low income families. In October 2017 a multilingualism education program in the day-care services for children was launched. This program gives the right to all children aged 1 to 4 years to attend 20 hours per week free of charge (46 weeks per year). For those children (aged 1 to 4), the child-care service vouchers scales start after these 20 hours per week free of charge, in other words all children aged 1 to 4 in a day-care service benefit at least 20 hours per week free of charge.

The price the parents have to pay is defined by law. It is based on the household taxable income. Siblings taken into account in order to determine the rank of the child are those eligible to family allowances.

The parents' financial contributions calculated following three different scales (Tariff 1, Tariff 2, Tariff 3) plus a scale for the meals. There are 2 different categories of scales: childcare centres and child minders. The categories are then subdivided in a scale for school aged (4-12) children and a scale for non schooled (0-4) children (see table below).

Any credit for hours per week cannot be carried forward from one week to another.

Children exposed to the risk of poverty and/or threatened by social exclusion are more specifically targeted by the child care voucher scheme. They are entitled to a higher number of hours per week free of charge.

The criteria for identifying children exposed to the risk of poverty are those living in households where there is a low level of income, excessive indebtedness, extraordinary costs, illness of one of the household members and the best interests of the child (principle stipulated by article 3 of the UN Convention on the Rights of the Child, 1989).

Taxable income is defined as follows: gross income subjected to personal income taxation (wage, replacement income (unemployment benefit in the framework of the Tax Benefit questionnaire)) and "allocation complémentaire" from the RMG program) less EUR 540/year/wage earner for professional expenses (in case of receiving a wage or unemployment benefit), less EUR 300/year (in case of receiving the "allocation complémentaire") less EUR 480/year for special expenses (doubled in case of two wage earners) less social contributions paid for health insurance and for pension insurance.

Scale of the participation of the parents for childcare as of the 1st January 2018:

Niveau de revenu	Enfants du ménage	Age des enfants	Heures Tranche 1	Tarif Tranche 1	Heures Tranche 2	Tarif Tranche 2	Heures Tranche 3	Tarif Tranche 3	Tarif Repas
Situation de précarité et d'exclusion ou RMG	1	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	0,50 €	gratuit
	2	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	0,30 €	gratuit
	3	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	0,15 €	gratuit
	A partir du 4e enfant	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	gratuit	gratuit
Revenu inférieur à 1,5 SSM	1	Tous les enfants	13 heures	gratuit	21 heures	0,50 €	26 heures	0,50 €	0,50 €
	2	Tous les enfants	13 heures	gratuit	21 heures	0,30 €	26 heures	0,30 €	0,50 €
	3	Tous les enfants	13 heures	gratuit	21 heures	0,15 €	26 heures	0,15 €	0,50 €
	A partir du 4e enfant	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	gratuit	0,50 €
Revenu inférieur à 2 SSM	1	Tous les enfants	13 heures	gratuit	21 heures	1,00 €	26 heures	1,50 €	1,00 €
	2	Tous les enfants	13 heures	gratuit	21 heures	0,70 €	26 heures	1,10 €	1,00 €
	3	Tous les enfants	13 heures	gratuit	21 heures	0,35 €	26 heures	0,55 €	1,00 €
	A partir du 4e enfant	Tous les enfants	13 heures	gratuit	21 heures	gratuit	26 heures	gratuit	1,00 €
Revenu inférieur à 2,5 SSM	1	Tous les enfants	8 heures	gratuit	21 heures	1,50 €	31 heures	2,50 €	1,50 €
	2	Tous les enfants	8 heures	gratuit	21 heures	1,10 €	31 heures	1,80 €	1,50 €
	3	Tous les enfants	8 heures	gratuit	21 heures	0,55 €	31 heures	0,90 €	1,50 €
	A partir du 4e enfant	Tous les enfants	8 heures	gratuit	21 heures	gratuit	31 heures	gratuit	1,50 €
Revenu inférieur à 3 SSM	1	Tous les enfants	8 heures	gratuit	21 heures	2,00 €	31 heures	3,50 €	2,00 €
	2	Tous les enfants	8 heures	gratuit	21 heures	1,50 €	31 heures	2,60 €	2,00 €
	3	Tous les enfants	8 heures	gratuit	21 heures	0,75 €	31 heures	1,30 €	2,00 €
	A partir du 4e enfant	Tous les enfants	8 heures	gratuit	21 heures	gratuit	31 heures	gratuit	2,00 €
Revenu inférieur à 3,5 SSM	1	Tous les enfants	3 heures	gratuit	21 heures	2,50 €	36 heures	4,50 €	2,00 €
	2	Tous les enfants	3 heures	gratuit	21 heures	1,80 €	36 heures	3,30 €	2,00 €

	3	Tous les enfants	3 heures	gratuit	21 heures	0,90 €	36 heures	1,65 €	2,00 €
	A partir du 4e enfant	Tous les enfants	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
Revenu inférieur à 4 SSM	1	Jeune enfant	3 heures	3,50 €	21 heures	3,50 €	36 heures	5,50 €	2,00 €
	2	Jeune enfant	3 heures	2,70 €	21 heures	2,70 €	36 heures	4,10 €	2,00 €
	3	Jeune enfant	3 heures	1,60 €	21 heures	1,60 €	36 heures	2,05 €	2,00 €
	A partir du 4e enfant	Jeune enfant	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
	1	Enfant scolarisé	3 heures	3,50 €	21 heures	3,50 €	36 heures	5,50 €	3,00 €
	2	Enfant scolarisé	3 heures	2,70 €	21 heures	2,70 €	36 heures	4,10 €	3,00 €
	3	Enfant scolarisé	3 heures	1,60 €	21 heures	1,60 €	36 heures	2,05 €	3,00 €
	A partir du 4e enfant	Enfant scolarisé	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	3,00 €
Revenu inférieur à 4,5 SSM	1	Jeune enfant	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	2,00 €
	2	Jeune enfant	3 heures	3,20 €	21 heures	3,20 €	36 heures	4,80 €	2,00 €
	3	Jeune enfant	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,40 €	2,00 €
	A partir du 4e enfant	Jeune enfant	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
	1	Enfant scolarisé	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	4,50 €
	2	Enfant scolarisé	3 heures	3,20 €	21 heures	3,20 €	36 heures	4,80 €	4,50 €
	3	Enfant scolarisé	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,40 €	4,50 €
	A partir du 4e enfant	Enfant scolarisé	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	4,50 €
Revenu égal ou supérieur 4,5 SSM	1	Jeune enfant	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	2,00 €
	2	Jeune enfant	3 heures	3,20 €	21 heures	3,20 €	36 heures	5,60 €	2,00 €
	3	Jeune enfant	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,80 €	2,00 €
	A partir du 4e enfant	Jeune enfant	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
	1	Enfant scolarisé	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	4,50 €
	2	Enfant scolarisé	3 heures	3,20 €	21 heures	3,20 €	36 heures	5,60 €	4,50 €
	3	Enfant scolarisé	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,80 €	4,50 €

	A partir du 4e enfant	Enfant scolarisé	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	4,50 €
Sans indication de revenu	1	Jeune enfant	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	2,00 €
	2	Jeune enfant	3 heures	3,20 €	21 heures	3,20 €	36 heures	5,60 €	2,00 €
	3	Jeune enfant	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,80 €	2,00 €
	A partir du 4e enfant	Jeune enfant	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	2,00 €
	1	Enfant scolarisé	3 heures	4,00 €	21 heures	4,00 €	36 heures	6,00 €	4,50 €
	2	Enfant scolarisé	3 heures	3,20 €	21 heures	3,20 €	36 heures	5,60 €	4,50 €
	3	Enfant scolarisé	3 heures	2,10 €	21 heures	2,10 €	36 heures	2,80 €	4,50 €
	A partir du 4e enfant	Enfant scolarisé	3 heures	gratuit	21 heures	gratuit	36 heures	gratuit	4,50 €

The value of the SSM (salaire social minimum) is EUR 1 998.59/month on January 1 2018.

Examples:

1. *The tariff per hour for a second child in a household earning EUR 4500/month (i.e. with an income smaller than 2.5 minimum wage) will be as follows:*

- *first 8 hours/week are free of charge*
- *9-29 hours/week: EUR 1,10 (Tariff 2)*
- *30-60 hours/week: EUR 1,80 (Tariff 3)*
- *>60 hours: EUR 6 (full tariff)*
- *Main meal: EUR 1,50/meal (5 meals per week)*

2. *Children living in households who might be at risk of social exclusion (beneficiaries of the minimum wage) or exposed to the risk of poverty*

- *34 first hours/week are free of charge*
- *35-60 hours/week: EUR 0,50 (Tariff 3)=> second child EUR 0,30 etc*
- *>60 hours: EUR 6 (full tariff)*
- *Main meal: free of charge (5 meals per week)*

5.1.1. *Discounts for part-time usage (not modelled)*

5.2. *Fee discounts and free provision*

Eligibility

5.2.1. *Amount of discount or free provision*

5.2.2. *Variation by income*

5.3. *Child-care benefits for formal centre-based care*

Code in the OECD tax-benefit model: [\[cc_benefit\]](#)

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

*5.3.1. Eligibility**5.3.2. Benefit amount**5.3.3. Benefit duration**5.3.4. Means test**5.3.5. Tax treatment**5.3.6. Interaction with other benefits**5.3.7. Combining benefit receipt and employment/starting a new job***5.4. Child care allowance for children not using child care centers**

None.

5.5. Tax concessions for childcare expenditures

The taxpayer can also obtain a standard abatement for childminding expenses of EUR 5 400 per year per family. 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 450 per month. (*See 8.1.1. Tax allowances*)

5.5.1. Eligibility

Children must be less than 14 years old and be in a childcare structure accredited by the State.

5.5.2. Maximum amount

EUR 5 400/ year. The maximum amount applies to the whole family (in case of expenses for several children) and not per child.

5.5.3. Variation by income

No

5.5.4. Impact on overall income tax calculation

It reduced the adjusted taxable income on which tax rates are applied.

6. In-work benefits

Code in the OECD tax-benefit model: [\[\]](#)

A tax credit for employees exists (see section 8.1.4.), nevertheless this tax credit is not exclusively targeted to employees. Taxpayers with replacement income like unemployment benefit or pension are also eligible to such a tax credit.

6.1.1. *Eligibility conditions*

6.1.2. *Benefit amount*

6.1.3. *Benefit duration*

6.1.4. *Means test*

6.1.5. *Tax treatment*

6.1.6. *Interaction with other components of the tax-benefit system* 

7. Social security contributions and payroll taxes

7.1. *Social security contributions (Cotisations sociales)*

Variable names: **[SOCSEC_p; SOCSEC_s; SSCR_p; SSCR_s]**

Wage earners pay 3,05% sickness scheme contributions and 8% pension scheme contributions on their gross earnings between EUR 1 998.59 per month (EUR 23 983.08 per year) and EUR 9 992.95 per month (EUR 119 915.4 per year). For replacement earnings, sickness insurance contribution rate is 2,80%.

Long term care insurance is financed by special contribution of 1,4% 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 499.65 per month in 2018)).

Compulsory social security contributions to schemes operated within the government sector in 2016

Type of household	Employer's share (%)	Employee's share (%)	Ceiling on contributions (in EUR/month)
a) Pension and disability insurance	8	8	9 992.95 (9 992.95 x 12 = 119 915.4à
b) Health insurance	3,05	3,05	Same ceilings as a)
payment in kind	2,80	2,80	
sickness benefit	0,25	0,25	
c) Dependency insurance		1,40	No ceiling, but monthly disregarded amount of 499.65
d) Health in the workplace	0,11		
e) Accident insurance ⁴	1,00		Same ceilings as a)
f) Employers' mutual insurance company	*)		*)Rate varies according to the financial absenteeism rate

7.2. *Non-tax compulsory employee payment (Cotisations en faveur de la Chambre des salariés)*

All employees and retirees in Luxembourg (with the exception of public officials) have to belong to the Chamber of Employees ("Chambre des salariés") regardless of their nationality or place of residence. Annual dues are automatically withheld by the employer or by the Pension Insurance which allow the Chamber to carry out its various activities and missions. In 2018 the same amounts than those fixed for the period 2009-2017 have been applied. The contributions is at EUR 31/year for every employee who earns a gross monthly salary of EUR 300 or more and this contribution is included in the calculations. There are reduced contributions of EUR 10 for employees with lower levels of earnings and EUR 4 for apprentices. This non-tax compulsory employee payment is withheld by the employers jointly with the withholding tax on salaries.

8. Taxes

Luxembourg has a progressive tax scheme with 19 rates varying between 0 and 40 per cent since 2013. Tax calculation is based on the splitting method. Spouses and partners are taxed jointly on their income.

8.1. *Personal income tax (Impôt sur le revenu des personnes physiques)*

Code in the OECD tax-benefit model: [\[INC_TAX\]](#)

4. From 2011 on, the accident insurance contribution rate is the same for all risk classes.

8.1.1. Tax allowances

- Professional expenses are deductible with a minimum of EUR 540. This minimum is deductible by default if there are no 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.
- Like other taxpayers, wage-earners having no special expenses (interest charges, insurance premiums or contributions other than for social security) may take a standard deduction of EUR 480 for special expenses. Social security contributions are deductible in their entirety, except long term care insurance.
- If both spouses have earned income and are taxed jointly, they qualify for an earned income allowance of EUR 4500 per year. The taxpayer obtains, on request, abatement on the taxable income for child care expenses (abatements 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)	Class 1	Class 1A or Class 2					
		Number of children					
		0	1	2	3	4	5
< 10 000	2%	0	0	0	0	0	0
10 000 – 20 000	4%	2%	0	0	0	0	0
20 000 – 30 000	6%	4%	2%	0	0	0	0
30 000 – 40 000	7%	6%	4%	2%	0	0	0
40 000 – 50 000	8%	7%	5%	3%	1%	0	0
50 000 – 60 000	9%	8%	6%	4%	2%	0	0
> 60 000	10%	9%	7%	5%	3%	1%	0

- The taxpayer can also obtain a standard abatement for childminding expenses of EUR 5 400 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 450 per month.

These tax credits are not modelled in TaxBen:

- The taxpayer can also obtain an allowance for extraordinary expenses for children not living in the household of EUR 4 020/year.
- Mortgage interest paid on an owner-occupied dwelling is deductible up to EUR 2 000/year in the first 5 years; up to EUR 1 500/year in the 5 following years; and up to EUR 1 000/year for the remaining term of the loan.

- The tax allowance for home purchase saving plans is EUR 1 344/year for young taxpayers (under 40 years old) and EUR 672/year for the other taxpayers.
- The tax allowance for complementary pension schemes is limited to EUR 3 200/year.
- A EUR 5 000 tax allowance will be granted for the purchase of an electric or hydrogen-powered car. The tax allowance is EUR 300 for the purchase of a pedelec or bicycle.

8.1.2. Tax base

Taxable income is rounded to the nearest lower multiple of EUR 50 before applying the tax schedule.

8.1.3. Income tax schedule

Income tax is determined on the basis of the following schedule (amounts in EUR/year):

Tax rate	Taxable income/year
0 % for the portion of income less than	11 265
8 % for the portion of income between	11 265,00 and 13 137 ,00
9 % for the portion of income between	13 137 ,00 and 15 009 ,00
10 % for the portion of income between	15 009 ,00 and 16 881 ,00
11 % for the portion of income between	16 881 ,00 and 18 753 ,00
12 % for the portion of income between	18 753 ,00 and 20 625 ,00
14 % for the portion of income between	20 625 ,00 and 22 569 ,00
16 % for the portion of income between	22 569 ,00 and 24 513 ,00
18 % for the portion of income between	24 513 ,00 and 26 457 ,00
20 % for the portion of income between	26 457 ,00 and 28 401 ,00
22 % for the portion of income between	28 401 ,00 and 30 345,00
24 % for the portion of income between	30 345,00 and 32 289 ,00
26 % for the portion of income between	32 289 ,00 and 34 233 ,00
28 % for the portion of income between	34 233 ,00 and 36 177 ,00
30 % for the portion of income between	36 177 ,00 and 38 121 ,00
32% for the portion of income between	38 121 ,00 and 40 065 ,00
34% for the portion of income between	40 065 ,00 and 42 009 ,00
36% for the portion of income between	42 009 ,00 and 43 953 ,00
38% for the portion of income exceeding	43 953 and 45 897
39% for the portion of income between	45 897 and 100 002
40% for the portion of income between	100 002 and 150 000
41% for the portion of income between	150 000 and 200 004
42% for the portion of income exceeding	200 004

- Single persons' taxable income (class 1) 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 widow(er)s, taxpayers with a dependent child allowance and persons over 64 years of age (class 1A), tax is calculated as follows: the schedule is applied to adjusted taxable income reduced by half of the difference between that amount and EUR 45 060/year, with the marginal tax rate capped at 39 %, for the portion of income between EUR 37 842/year and EUR 100 002/year, at 40% for the portion of income between EUR 100 002/year and EUR

150 000/year, 41% for the portion of income between EUR 150 000/year and EUR 200 004/year and at 42% for the portion of income exceeding EUR 200 004/year.

8.1.4. Tax credits

Tax credit for employees

The tax credit for employees, self-employed people and pensioners increases progressively until it is capped at EUR 600 per year for taxpayers earning between EUR 11 265/year and EUR 40 000/year. For taxpayers earning between EUR 40 000/year and 80 000/year, the tax credit will decline progressively. Taxpayers earning more than EUR 80 000/year will not benefit anymore from the tax credit.

The formula to apply for employees are as follows:

- For an annual gross wage (sickness, maternity and unemployment benefits are considered like a wage in the personal income tax law) between EUR 936/year and EUR 11 265/yer, the annual tax credit is equal to $\text{EUR } [300 + (\text{annual gross wage} - 936) * 0,029]$ /year;
- For an annual gross wage between EUR 11 266/year and EUR 40 000/year, the annual tax credit is equal to EUR 600 per year;
- For an annual gross wage between EUR 40 001/year and EUR 79 999/year, the annual tax credit is equal to $\text{EUR } [600 - (\text{annual gross wage} - 40 000) * 0.015]$ /year.

The “allocation complémentaire” from the Guaranteed minimum income (RMG) is not eligible for this tax credit

The tax credit is individual. So, if there are two wage earners in a family, both of them receive a tax credit.

Code in the OECD tax-benefit model: [\[WORK_CR\]](#)

Tax credit for single parents with children

The tax credit for single parents with children is equal to EUR 1 500 per year for taxpayers with taxable income up to EUR 35 000/year. For taxpayers with taxable income between EUR 35 000/year and EUR 105 000/year, the tax credit declines progressively: for them, the formula to apply is as follows: $\text{EUR } [1875 - (\text{taxable income} * (750/70 000))]$ /year. For taxpayers with taxable income more than EUR 105 000/year, the tax credit is equal to EUR 750/year.

Code in the OECD tax-benefit model: [\[LP_CR\]](#)

8.2. Solidarity surtax (*Impôt de solidarité*)

Variable names: [\[SURTAX\]](#)

Income tax as determined by the applicable schedules is subject to a 7 % “solidarity” surtax to finance the unemployment insurance scheme. The rate is 9 % for the taxable income exceeding 150.000€/year (tax classes 1 and 1a), respectively 300.000€/year (tax class 2).

