

THE OECD TAX-BENEFIT DATABASE

Description of policy rules for
Luxembourg 2022



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Description of policy rules for 2022

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Table of contents

Preface	4
The OECD tax-benefit model for Luxembourg: Policy rules in 2022	1
1. Reference wages	1
2. Unemployment benefits	1
2.1. Unemployment indemnity (Indemnité de chômage)	1
3. Social assistance and housing benefits	6
3.1. Social inclusion income (REVenu d’Inclusion Sociale, REVIS)	6
3.2. Housing benefit (Subvention de loyer)	8
3.3. The cost-of-living benefit (“Allocation de vie chère”)	11
4. Family benefits	13
4.1. Family allowance (“Allocation pour l’avenir des enfants”)	13
4.2. New school year allowance (“Allocation de rentrée scolaire”)	15
4.3. Tax credit for lone-parent (Crédit d’impôt monoparental)	15
5. Net costs of Early Childhood Education and Care	16
5.1. Gross childcare fees	16
5.2. Fee discounts and free provision	1
5.3. Child-care benefits for formal centre-based care	2
5.4. Child care allowance for children not using child care centers	2
5.5. Tax concessions for childcare expenditures	2
6. In-work benefits	3
7. Social security contributions and payroll taxes	3
7.1. Social security contributions (Cotisations sociales)	3
7.2. Non-tax compulsory employee payment (Cotisations en faveur de la Chambre des salariés)	4
8. Taxes	5
8.1. Personal income tax (Impôt sur le revenu des personnes physiques)	5
8.2. Solidarity surtax (Impôt de solidarité)	9
9. Selected output from the OECD tax-benefit model (TaxBEN)	9
Annex : Programs not currently implemented	12
1.1. Sickness Benefit (Indéminté pécuniaire de maladie)	12
1.2. Mandatory employer sick pay (Conservation légale de la rémunération en cas d’incapacité de travail pour maladie)	13
1.3. Benefit for the leave for family reasons (Indemnité pécuniaire pour congé pour raisons familiales)	13
1.4. Short-time work compensation schemes (Indemnité de chômage partiel)	16

Preface

This report provides a detailed description of the tax and benefit rules in Luxembourg as they apply to working-age individuals and their dependent children. It also includes output from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, .e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)

Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **January 1, 2022**.
- The TaxBEN models all policies in effect during the reference date. This includes temporary policies implemented in response to the **Covid-19 pandemic**.
- The symbol ⓘ in the text provides a link to the 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.
- **TaxBEN** variables are indicated in the text using the format **[variable name]**.

The OECD tax-benefit model for Luxembourg: Policy rules in 2022

1. Reference wages

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#)).¹ If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate.

The minimum wage **[MIN]** in 2022 is EUR 2 256.95 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2022) by 12, i.e. EUR 2 256.95 * 12 = EUR 27 083.40

2. Unemployment benefits

2.1. *Unemployment indemnity (Indemnité de chômage)*

Code in the OECD tax-benefit model:³ **[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 at a degree of least for 16 hours a week during the 12 months preceding the registration at the Agency for unemployment development.

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 a new 26 weeks employment in that period is once again fulfilled.

¹ Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

² Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

³ 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.

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.⁴ The benefit claimant has to:

1. be registered at the public employment service (ADEM, “Agence pour le développement de l’emploi”);
2. be available and fit for work;
3. be involuntarily unemployed (which excludes termination of an employment contract by mutual consent, leaving a job without a valid reason, resignation and dismissal for serious misconduct “faute grave”);
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 the month during which the unemployment occurs.

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 (SSM) during the first 6 months of unemployment. It is reduced to 200% of the SSM for the following 6 months, then to 150% of the SSM in case of an extension beyond the 12 months threshold (up to a maximum of 24 months in total). The social minimum reference salary is EUR 2 256.95 per month as of 1st January 2022 (EUR 27 083.40 for the year 2022).

Unemployment benefits may, under certain conditions, be paid to a young person (between 16 and 28 years of age) at the end of their training. These persons must be registered with the National Employment Agency (Agence pour le développement de l’emploi - ADEM) as a job seeker and reside in Luxembourg. Other conditions are presented in the table below⁵:

Qualifications	Age	Rights
No qualification	less than 21 years of age	unemployment benefits provided the candidate has been registered with ADEM for 6 months
No qualifications	more than 21 years of age	no unemployment benefits

⁴ Details on behavioural requirements and sanction provisions for unemployment benefits are reported at <https://www.oecd.org/social/strictness-benefit-eligibility.htm>

⁵ Further information: [Applying for unemployment benefits as a young resident who has completed training — Citizens — Guichet.lu - Administrative Guide - Luxembourg \(public.lu\)](https://public.lu/en/citizens/guichet-lu-administrative-guide/luxembourg/unemployment-benefits-as-a-young-resident-who-has-completed-training)

Successful completion of the apprenticeship with an employer	less than 23 years of age	unemployment benefits with immediate effect
Successful completion of the school programme of the apprenticeship	less than 23 years of age	unemployment benefits provided the candidate has been registered with ADEM for 6 months
Successful completion of the apprenticeship with the school programme or with an employer	more than 23 years of age	no unemployment benefits
Successful completion of the secondary school diploma	less than 25 years of age	unemployment benefits provided the candidate has been registered with ADEM for 6 months
Successful completion of the secondary school diploma	more than 25 years of age	no unemployment benefits
Successful completion of 4 academic years (Master I)	less than 28 years of age	unemployment benefits provided the candidate has been registered with ADEM for 6 months
Successful completion of 4 academic years (Master I)	more than 28 years of age	no unemployment benefits
Abandonment of university studies	less than 25 years of age	the right to unemployment benefits at the earliest 6 months after the end of the winter/summer semester

The age that is taken into account is the age on the day of the registration as a job seeker. It must be noted that no benefit of any kind will be paid in the following cases: abandonment of a job or an apprenticeship contract without a valid reason; termination of an apprenticeship contract or internship contract for serious misconduct; dismissal for serious reasons.

The amount of benefits is set at 40 % of the social minimum wage for adolescents of 16 and 17 years of age, or who failed the final apprenticeship examination; and at 70 % of the social minimum wage for other young people. If the young person has dependent children, the unemployment benefit can be increased by 5 %. Any unemployed person meeting the conditions for admission may be entitled to benefits for a maximum of 12 months.

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).

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.

COVID-19 measures (Not currently implemented in TaxBEN model)

Due to the extraordinary situation on the labour market triggered by the COVID-19 health crisis, jobseekers registered with ADEM faced difficulties in finding a new job.

For this reason, the entitlement to unemployment benefit was extended for the duration of the state of crisis (i.e. for 3 months, from 18 March 2020 through to 24 June 2020). This applied both to the duration of the regular unemployment benefit (12 months) and to any extension period (maximum 24 months). Thus, this exceptional measure taken in the context of the pandemic will stop producing its effects on 24 June 2022 at the latest.

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 d’inclusion” (social inclusion income), in the income definition used to calculate “allocation de vie chère” (cost-of-living benefit) and in the income definition used to calculate housing benefit.

Unemployment benefit is included in the tax base.

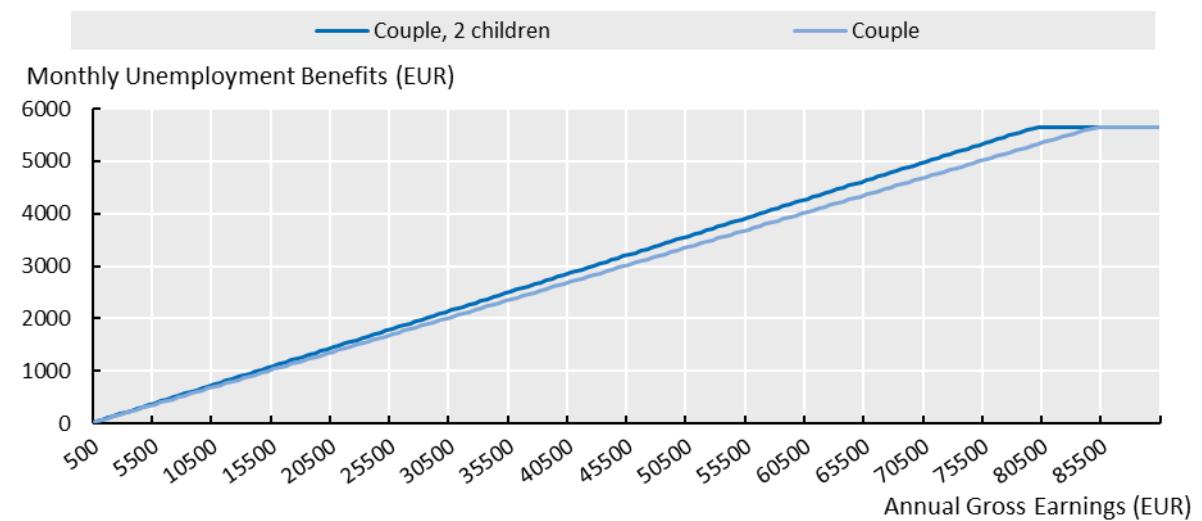
As far as unemployment benefit is included in the tax base and that the price that the parents have to pay for childcare is based on the household taxable income, unemployment benefit is interacted with childcare fees.

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.

Unemployment benefits and the underlying contribution/employment requirements are computed on a rolling basis. The counter is not set back to zero once the jobseeker has found a new job. In the standard situation, that is an unemployment benefit duration of up to 12 months (365 calendar days) over a period covering the last 24 months (provided the eligibility conditions set out in point 2.1.1. are fulfilled in the first place). Thus, a jobseeker who finds a new job before the end of his/her maximum EI entitlement can make use of the remaining benefit days at a later stage, within the 12/24 months limit.

Figure 1 – Unemployment Benefits by gross earnings



Note: All adults are 40 years old. Children, if present, are 4 and 6.

3. Social assistance and housing benefits

3.1. Social inclusion income (*REVenu d’Inclusion Sociale, REVIS*)

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

Since the 1st January 2019, the REVIS replaces the previous RMG.

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

The REVIS consists in granting :

- either a social inclusion benefit (“allocation d’inclusion”) to provide those who have no income, or whose income falls below a certain threshold, with a basic means of livelihood,
- or an activation benefit (“allocation d’activation”) to financially support a person taking part in an activation programme,
- or a combination of the social inclusion benefit and the activation benefit.

3.1.1. Eligibility conditions

To be eligible for REVIS, applicants must:

- be legally resident and actually live in Luxembourg;
- be **at least 25 years old**;
- be receiving an income, either personally or collectively with their household, which **falls below the thresholds set by law**;
- be looking for a job (if they are not employed), and be and remain registered as a job seeker with the [National Employment Agency](#) (Agence pour le développement de l’emploi – ADEM);
- be prepared to exhaust all options, in Luxembourg or abroad, to improve their situation (for instance, find out whether they are entitled to unemployment benefits, to a pension, etc.).

People under 25 do not qualify for REVIS unless they have dependent children, are 7 months pregnant, are responsible for a dependent person or unable to work.

Beneficiaries of an invalidity or an old-age pension and/or over 64 years do not need to be available for the labour market any longer.

3.1.2. Benefit amount

The gross amount of the activation benefit 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 social inclusion benefit is the difference between the REVIS below and the amount defined in section 3.1.4.

	REVIS (EUR per month)
--	-----------------------

	1st January 2022
Amount per adult (Montant forfaitaire de base par adulte)	791,80
Amount per child (Montant forfaitaire de base par enfant)	245,82
Additional amount for children living with one parent (per child) (Majoration pour les enfants qui ne vivent qu'avec un seul parent)	72,65
Amount for common expenses of the household (Montant couvrant les frais communs du ménage)	791,80
Additional amount for common expenses of households with children (per household) (Majoration couvrant les frais communs du ménage d'une communauté domestique avec enfant(s))	118,85

3.1.3. *Benefit duration*

There is no duration limit. Benefit is paid monthly.

3.1.4. *Means test*

Gross income from whatever source is included in the income test, but an amount of 25% of the earned income, replacement income or pension income is disregarded. Family allowances, new school year allowance, cost-of-living benefit, childcare benefits and tax credits are not considered as income for the social assistance means test.

3.1.5. *Tax treatment*

The activation benefit and the social inclusion benefit are taxable. Full social security contributions are payable with the activation benefit whereas for the social inclusion benefit, in general only the sickness contributions and long term care contributions are payable.

Pensions contributions are paid by the National Solidarity Fund for those beneficiaries of an social inclusion benefit 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.

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

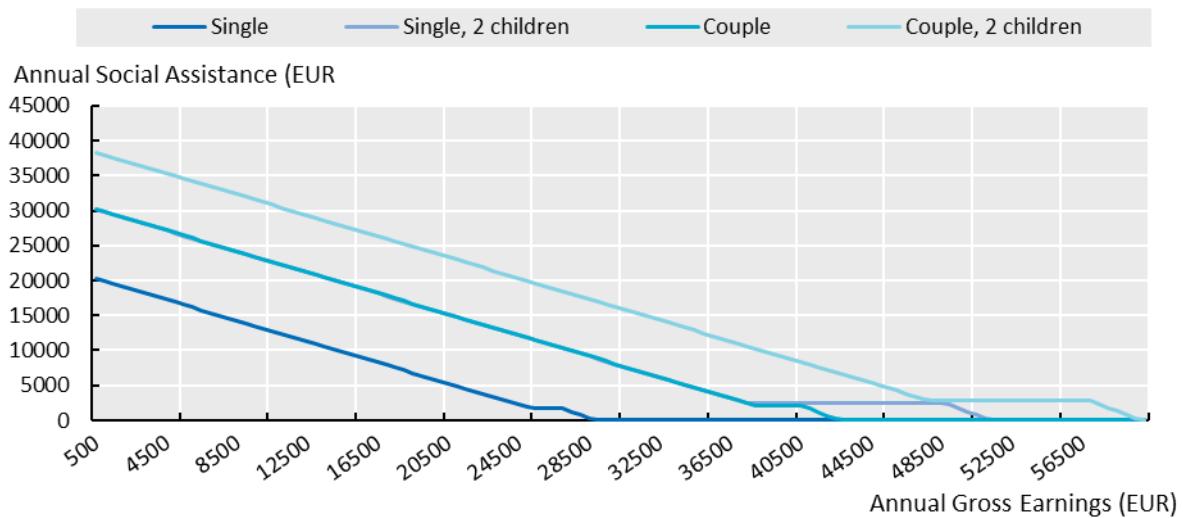
The social inclusion benefit and the activation benefit are included in the income definition used to calculate the annual gross income limits of the cost-of-living benefit (see 3.3.4.) and on the income definition used to calculate housing benefit.

The social inclusion benefit and the activation benefit 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 REVIS (for example a part-time job or a full time job in a large family) the right of the REVIS is still open. If the income from the new job is higher than REVIS, the benefit is suspended.

Figure 2 – Social Assistance by gross earnings



Note: All adults are 40 years old. In case of couples, spouse does not work. Children, if present, are 4 and 6.

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.

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 134 EUR and 294 EUR but may not exceed the rent paid by the household.

Amount as of 1st January 2022 (These amounts have been in force since 1st April 2020)⁶

Type of household	Low income threshold (EUR/month)	Reference rent (EUR/month)	Maximum amount of the “subvention de loyer” (EUR/month)
1 person	2 650	935	134
Household without children	3 950	1 020	134
Household with 1 child	4 750	1 200	160
Household with 2 children	5 500	1 380	187
Household with 3 children	6 300	1 615	214
Household with 4 children	7 100	2 005	241
Household with 5 children	7 900	2 245	267
Household with 6 children	8 650	2 395	294
+ for each subsequent child	+800	+ 140	+ 0

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

SL = Lo - (0,25 x Ynet) 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. Housing benefit is paid monthly.

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. Net income is calculated as:
 - 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)),
 - less an allowance of EUR 300 for the those households receiving REVIS/RGPH or receiving any pension (multiply by 2 in case of two pension beneficiaries)

⁶ Legal reference of the change: <http://www.legilux.lu/eli/etat/leg/rgd/2020/03/27/a202/jo>

Institutional reference of the change: <https://guichet.public.lu/en/citoyens/logement/location/aides-au-logement/subvention-loyer.html>

- less special deductions (minimum of EUR 480 (multiply by 2 only in case of two wage earners in the household));
- parental leave benefit;
- received alimony;
- accident at work pension;
- gross wage for overtime hours worked;
- less social contributions;
- less income tax.

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

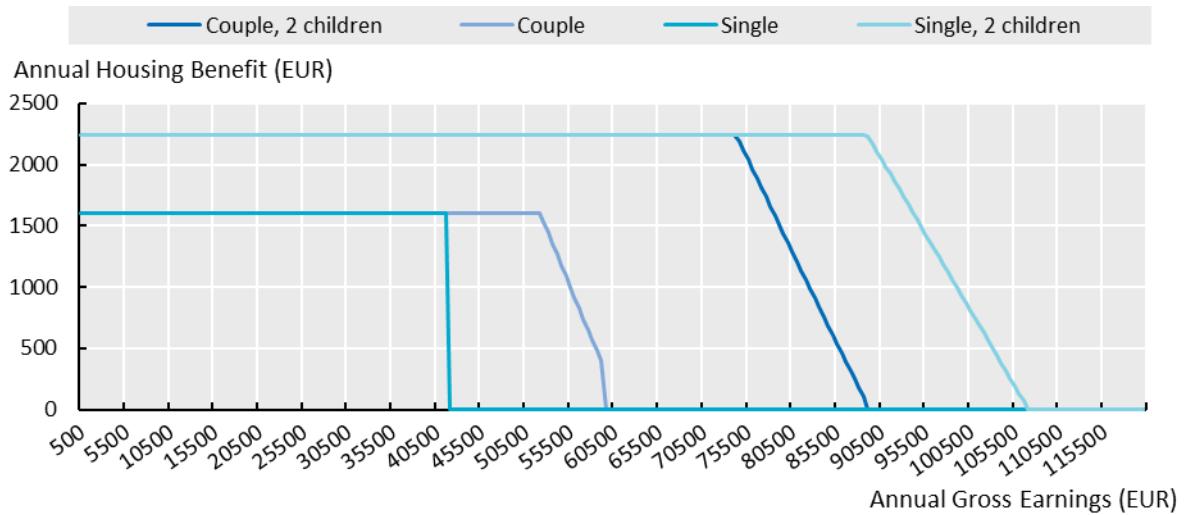
Until end of 2018, no cumulation of the rent subsidy and the rent housing for social assistance recipients (majoration RMG) is possible, so only a “subvention de loyer” can be obtained by beneficiaries of the social assistance (RMG) in case of a new application or a modification of the financial/family situation as of 1st January 2016. However, beneficiaries of the social assistance (RMG) 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).

From January 1, 2019, cumulating the housing benefit and the REVIS is possible.

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

Yes

Figure 3 – Housing Benefit by gross earnings



Note: All parents are 40 years old. In case of couple, spouse does not work. Children, if present, are 4 and 6.

3.3. *The cost-of-living benefit (“Allocation de vie chère”)*

The National Solidarity Fund (Fonds National de Solidarité) will grant on demand for the year 2022 a cost-of-living benefit (“**allocation de vie chère**”), which consists in an annual amount.

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

3.3.1. *Eligibility conditions*

The cost-of-living benefit may be awarded to anyone who:

- **is legally resident** and actually lives in Luxembourg;
- **has been legally resident** in Luxembourg for a reference period of **12 continuous months** prior to the month in which they submitted the application;
- either alone or cumulatively with the people living with the applicant in the same household, and at the time of submitting the application, has a **low annual income**.

Students are not entitled to the cost-of-living benefit.

3.3.2. *Benefit amount*

The cost-of-living benefit for 2022 is fixed as (divided by 12 for monthly amounts) :

- 1 652 EUR/year for a single person
- 2 065 EUR/year for a family type of 2 persons
- 2 478 EUR/year for a family type of 3 persons
- 2 891 EUR/year for a family type of 4 persons
- 3 304 EUR/year for a family type of 5 persons and more.

In case the above, annual gross income limit (see 3.3.4.) is exceeded by an amount not exceeding the amount of the cost-of-living benefit corresponding to the family type, the

benefit of a **reduced cost-of-living benefit** is possible. For these cases, the reduced benefit is equal to the gross annual income limit for a family type plus the amount of the cost-of-living benefit for this family type less the gross annual income of this family type.

Example:

- Annual cost-of-living benefit for a family of 1 person: 1 652 EUR/year
- Annual gross income limit for a family of 1 person: 27 106.05 EUR/year
- Annual gross income: 28 000 EUR/year
- Reduced annual cost-of-living benefit will be:

$$27\ 106.05 + 1\ 652 - 28\ 000 = 758.05 \text{ EUR/year}$$

3.3.3. Benefit duration

The amount is due for 1 year. Each year, applicants must make a new demand for the cost-of-living-benefit. There is no limit in the number of years.

3.3.4. Means test

For the cost-of-living benefit, the income definition includes all gross income. The family benefits, school expenses allowance, birth allowance, childcare benefits and tax credits are not considered in the income definition. The annual gross income limits for 2022 are fixed as (divided by 12 for monthly gross income limits):

Family type	Annual gross income limits (EUR per year) January 1, 2022
1 person	27 106,05
2 persons	40 659,08
3 persons	48 790,90
4 persons	56 922,72
5 persons	65 054,54
6 persons	73 186,36
7 persons	81 318,18
8 persons	89 450,00
9 persons	97 581,82
10 persons	105 713,64

3.3.5. Tax treatment

The cost-of-living benefit is tax free and social contribution free.

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

No, it can be cumulated with REVIS or any other component of the tax-benefit system. The cost-of-living benefit is NO MORE included in the income definition used to calculate the housing benefit.

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

Yes, but if the salary of the new job is bigger than the annual gross income limit, the cost-of-living benefit must be paid back to the National Solidarity Fund.

4. Family benefits

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

4.1. *Family allowance (“Allocation pour l’avenir des enfants”)*

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

4.1.1. *Eligibility conditions*

Family allowances are paid only to families with dependent children under 18 (or under 25 if still in secondary education; 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: 271.66 EUR/month

Pre-reform claimants (reform entered in Law the 1st august 2016):

Child belonging, before the reform, to a family group of ...	EUR/month
2 children	304,69
3 children	353,03
4 children	377,24
5 children	391,70
6 children	401,37
7 children	408,30
8 children	413,44
9 children	417,46

10 children	420,71
11 children	423,36
12 children	425,50
13 children	427,38
14 children	429,01
15 children	430,38
16 children	431,57
17 children	432,60
18 children	433,54
19 children	434,40
20 children	435,17
21 children	435,85
22 children	436,45
23 children	437,05
24 children	437,56
25 children	438,08

Additional complement for children aged 6 and more (new claimants and pre-reform claimants): 20,53 EUR/month

Additional complement for children aged 12 and more (new claimants and pre-reform claimants): 51,25 EUR/month

4.1.3. *Benefit duration*

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

4.1.4. *Means test*

The allowance is not means-tested.

4.1.5. *Tax treatment*

The allowance is not taxable.

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

Since 2018, the family allowance is no longer included in the income definition used to calculate the cost-of-living benefit and no longer 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. *New school year 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 pays new school year allowance in August each year for all children receiving family benefits aged six and older who are 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 as a child receives family allowances.

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 new school year allowance is no longer included in the income definition used to calculated the cost-of-living benefit.

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. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **January 1, 2022**.

School is compulsory for children as of 4 years of age; early childhood education initiates at the age of 3 years. Childcare is provided by several types of childcare facilities, welcoming children in their early childhood age to those aged up to 12. Some are *associations sans but lucratif* (not-for-profit organisations) or facilities managed by municipalities; others are private-law undertakings.

5.1. Gross childcare fees

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

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 dedicated type of public benefit for children and their families. The system aims at subsidizing parental financial contribution, encouraging access to non-formal education. The vast majority of the facilities are subsidised by the State, be they public or private facilities. An education and care services provider (Service d'Éducation et d'Accueil – SEA or the childminder) wishing to join the childcare service voucher scheme must file an application with the Education and Care Department at the Ministry of Education, Children and Youth, for recognition as a Chèque-Service Accueil service provider.

In order to gain recognition as a Chèque-Service Accueil service provider, the manager of the SEA or the childminder must fulfil conditions regarding the implementation of quality tools in line with the national framework of reference for ‘Non-formal education of children and young people’, as well as fulfil the conditions of mandatory continuous education and agree to a visit from a regional representative of the National Youth Service.

Each SEA or AP (Assistant Parental, childminder) must hold an official accreditation issued by the Ministry of Education, Children and Youth based on criteria of respectability, qualification of staff and infrastructures.

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 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 EUR 7,50 to EUR 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. A reform of the child-care voucher entered into force in October 2017 with a maximum value of hourly subsidy fixed at EUR 6 for settings in childcare centres publicly funded and commercial childcare centres and an hourly price fixed at EUR 3,75 for settings by childminders. Free hours were increased for all low income families, and a

multilingualism education program was launched for children in collective childcare facilities. This program gives the right to all not full time at school children aged 1 to 4 years to attend maximum 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 (46 weeks per year). The hourly unsubsidised price for those children is EUR 6,71.

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 d’inclusion” from the REVIS 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 d’inclusion”) 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.

When modelling the Chèque-Service Accueil program, the TaxBEN model assumes that childcare is used for all hours when both parents are working, up to a maximum of 40 hours. TaxBEN assumes an hourly cost equal to the maximum subsidy (EUR 6,71) for children between 1 and 4 years old. A similar assumption is made for meal subsidies (EUR 4,50). The resulting childcare subsidy is calculated with reference to this base cost.

Scale of the participation of the parents for childcare as of the 1st January 2022:

Niveau de revenu	Enfants du ménage	Age des enfants	Heures	Tarif	Heures	Tarif	Heures	Tarif	Tarif
			Tranche 1	Tranche 1	Tranche 2	Tranche 2	Tranche 3	Tranche 3	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 2 256.95/month on January 1 2022.

Examples (for children aged 4 and over):

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 applicable.

5.2. Fee discounts and free provision

The Multilingual Education Program provides 20 hours of free childcare per week for 46 weeks per year. This policy is modelled in TaxBEN.

From September 2022, free meals and free childcare will be provided for children attending education and care facilities⁷. As this policy was not in place on the reference date (1 January 2022), it is not currently modelled in TaxBEN.

The remainder of this section only describes free provision under the Multilingual Education Program.

5.2.1. Eligibility

All children aged from 1 to 4 years, not full time at school and attending a collective childcare facility

⁷ The aim is to enhance access to non-formal education during the school year to the entire population of schoolchildren by making it free for all, as is the case for formal education, and to make non-formal education accessible during school holidays also to children whose parents have a low income. In this sense, non-formal education is complementary to school as a place of learning and living. Non-formal education complements and supports the formal education system and aims to strengthen social cohesion through the integration of children at the local community level into Luxembourg society.

5.2.2. Amount of discount or free provision

In the framework of the multilingual education program, all children aged from 1 to 4 years, not full time at school and attending a collective childcare facility are eligible, with effect from October 2017, for 20 hours' free attendance per week, over a period of 46 weeks per year. Assistants parentaux (APs, i.e. childminders) do not form part of this programme, because the type of care they offer cannot fulfil the conditions required for multilingual education (one person for each language).

The multilingual education program can be combined with the financial support provided in the context of the CSA. Thus, the free hours of childcare which households having an income less than or equal to three times the minimum social wage are entitled to, are added to the 20 hours' free attendance.

5.2.3. Variation by income

No

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

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

There is no cash benefit scheme for parents whose children are registered in a childcare system.

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 childcare 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.

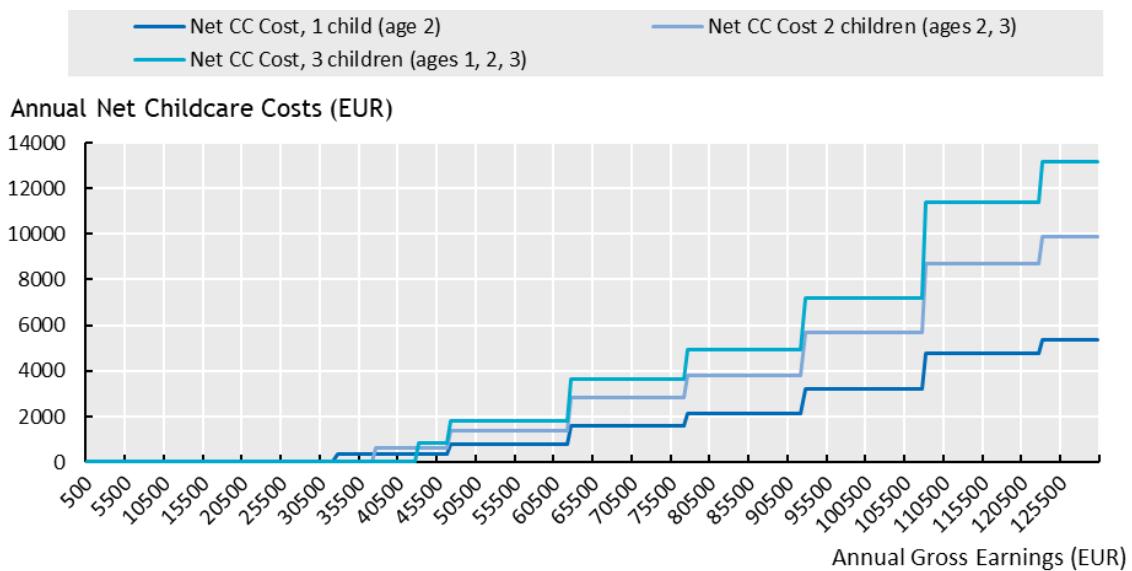
5.5.3. Variation by income

None.

5.5.4. Impact on overall income tax calculation

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

Figure 4 – Cost of Childcare by gross earnings



Note: Figures for lone parent aged 40.

6. In-work benefits

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

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

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 2 256.95 per month (EUR 27 083.40 per year) and EUR 11 284.77 per month (EUR 135 417.24 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 564.24 per month in 2022).

Compulsory social security contributions to schemes operated within the government sector in 2022

Type of household	Employer's share (%)	Employee's share (%)	Ceiling on contributions (in EUR/month)
a) Pension and disability insurance	8	8	11 284.77
b) Health insurance payment in kind	3,05 2,80	3,05 2,80	Same ceilings as a)
sickness benefit	0,25	0,25	
c) Dependency insurance		1,40	No ceiling, but monthly disregarded amount of 564.24
d) Health in the workplace	0,14		
e) Accident insurance ⁸	0,75 ⁹		Same ceilings as a)
f) Employers' mutual insurance company	1,90% on average ¹⁰		Same ceilings as a)

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

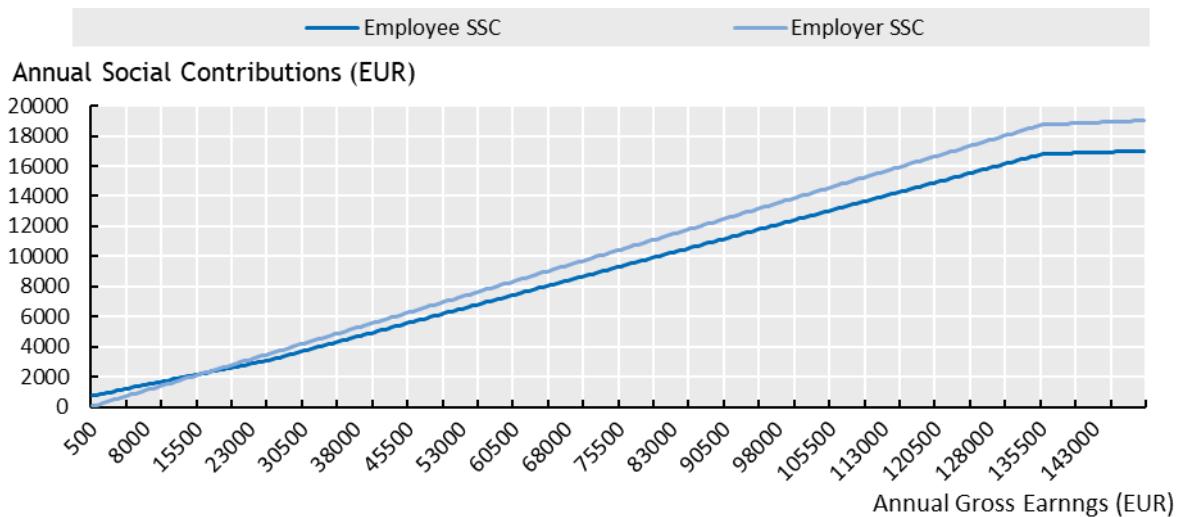
All employees and retirees in Luxembourg (with the exception of public officials) have to belong to the Chamber of Employees (“Chambre des salaries”) regardless of their nationality or place of residence. Annual dues are automatically withheld by the employer or by the Pension Insurance which allow the Chamber to carry out its various activities and missions. In 2022 the same amounts than those fixed for the period 2009-2021 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 From 2011 on, the accident insurance contribution rate is the same for all risk classes.

⁹ Since 2019, this rate is multiplied by a bonus/malus factor.

¹⁰ Rate varies according to the previous financial absenteeism rate of the firm.

Figure 5 – Social Security Contributions by gross earnings



Note: All figures for 40-year old one-earner couple with 2 children (ages 4 and 6).

8. Taxes

Luxembourg has a progressive tax scheme with 23 rates varying between 0 and 42 per cent since 2017. Tax calculation is based on the splitting method. Spouses and partners are taxed jointly on their income. Since 2018, married couples have the option to file separate tax returns.

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

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

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 REVIS (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 childcare 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)	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 childcare 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.

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.

- Income tax is rounded down to the nearest EUR.

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 696 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, parental leave and unemployment benefits are considered like a wage in the personal income tax law) between EUR 936/year and EUR 11 265/year, the annual tax credit is equal to EUR $[396 + (\text{annual gross wage} - 936) * 0,029]/\text{year}$;
- For an annual gross wage between EUR 11 266/year and EUR 40 000/year, the annual tax credit is equal to EUR 696 per year;
- For an annual gross wage between EUR 40 001/year and EUR 79 999/year, the annual tax credit is equal to EUR $[696 - (\text{annual gross wage} - 40 000)*0,0174]/\text{year}$.

The “allocation d’inclusion” from the Social inclusion income (REVIS) is not eligible for this tax credit

The tax credit is individual. Thus, if there are two wage earners in a family, both of them receive a tax credit. Further, this tax credit is refundable (non-wastable).

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: EUR $[1875 - (\text{taxable income} * (750/70 000))]/\text{year}$. For taxpayers with taxable income more than EUR 105 000/year, the tax credit is equal to EUR 750/year. This tax credit is refundable (non-wastable).

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

Tax credit for social minimum wage earners

A new tax credit for social minimum wage earners was introduced in January 2019. The tax credit is fixed to EUR 70 per month for employees in a full-time job earning a monthly gross wage (sickness, maternity, parental leave and unemployment benefits are considered like a wage in the personal income tax law) between EUR 1 500 and EUR 2 500. For employees in a full-time job with monthly gross wages between EUR 2 500 and EUR 3 000, the tax credit declines progressively: for them, the formula to apply is as follows: EUR $[(70/500) * (3000 - \text{monthly wage})]$. For employees in a part-time job, the gross wage is first estimated as if they work full-time (multiply by 2 if employees work 50% of full-time hours) to verify if they are entitled to the tax credit applying the same rules than the ones for the employees in a full-time job. For employees in a part-time job, the tax credit is proportional to the working time. Employees in a full-time job with monthly gross wages higher than EUR 3 000 or employees in a part-time job (50%

of full-time hours) with monthly gross wages higher than EUR 1 500 will not benefit anymore from the tax credit. This tax credit comes on top of the already existing tax credit for employees.

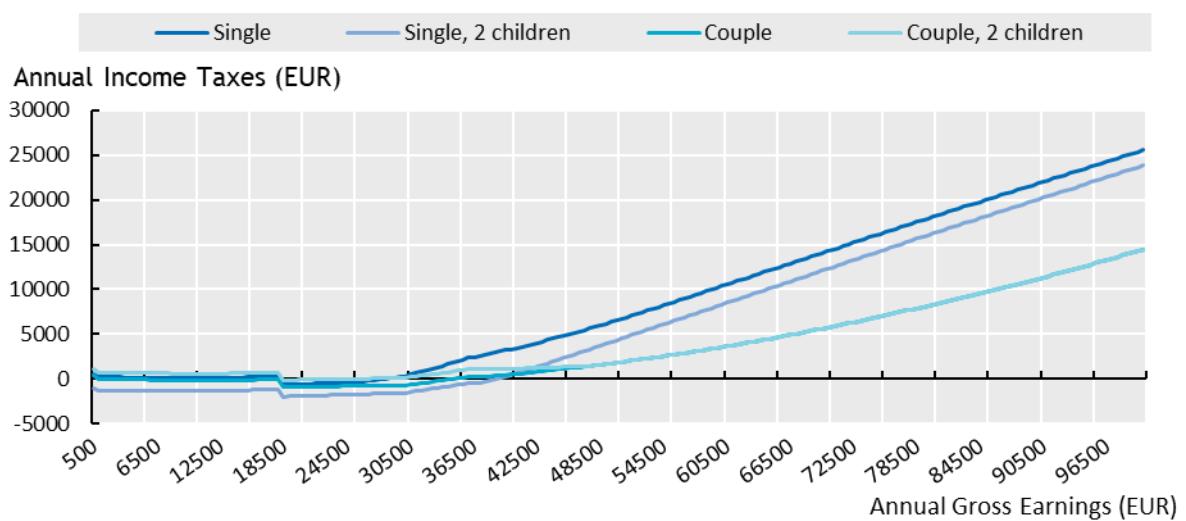
8.2. Solidarity surtax (*Impôt de solidarité*)

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).

Solidarity surtax is rounded down to the nearest EUR.

Figure 6 – Income Taxes by gross earnings



Note: All adults are 40 years old. Children, if present, are 4 and 6. In case of couples, spouse does not work and receives SA, which is included in taxable income.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Luxembourg in 2021 (see figure below). TaxBEN by default produces the following output: 1) net household incomes (**black line**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (users are free to select many of these circumstances). The model and the related web calculator is accessible from the [project website](#). The figure below shows output for a two-adult family with two children (adults are both 40 years old whereas children are 4 and 6 years old respectively) and four different scenarios:

By percentage of the average wage (**Panel A**);

By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);

By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);

By previous employment record (in months), for a jobseeker claiming unemployment benefits (**Panel D**).

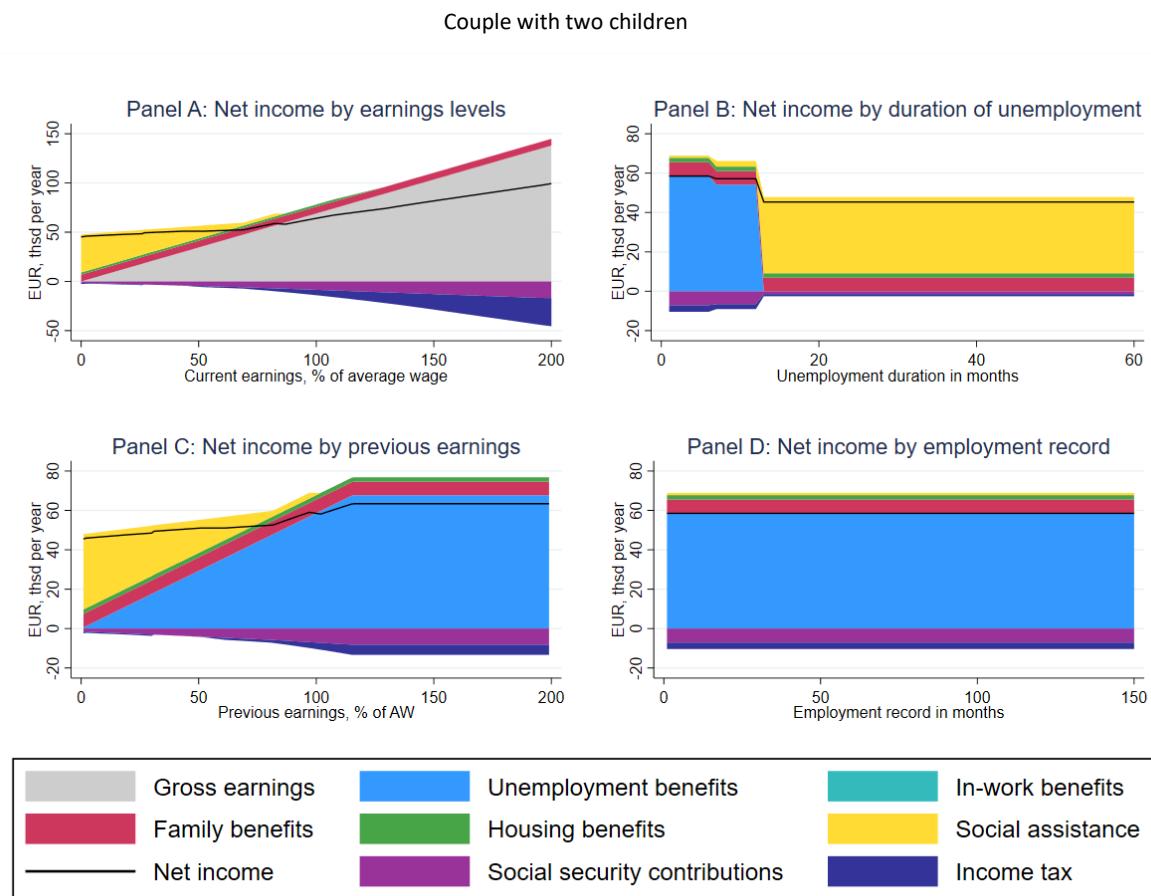
The stacked areas show the following household income components: **GROSS** = gross earnings; **UB** = unemployment benefits; **SA** = social assistance / guaranteed minimum income benefits; **HB** = housing benefits; **FB** = family benefits; **IW** = in-work benefits; **SSC** = social security contributions; **IT**= income tax. Note that these components may be the result of the aggregation of more than one benefit/tax into a composite category. Please refer to the sections above for the benefits/taxes included in each category.

Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Panel A assumes that one adult family member (the so-called ‘second adult’ using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (the so-called ‘first adult’) is employed full-time throughout the entire year at different earnings levels ranging between 0 and 200% of the average wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits (again, e.g. because they have expired) but claiming social assistance or guaranteed minimum income benefits, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The x-axis in Panel B measures the time of benefit receipt, starting from the first month. The x-axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2nd month of unemployment benefit receipt. In Panel B and D, previous earnings are assumed to be equal to the average wage.

Figure 7. Selected output from the OECD tax-benefit model



Source: Calculations based on the OECD tax-benefit model.

Annex : Programs not currently implemented

1.1. Sickness Benefit (Indémnité pécuniaire de maladie)

1.1.1. Entitlement and eligibility conditions

No minimum period of work or insurance required, except in case of cessation of the labour contract: 6 months of insurance. Periods of unemployment or parental leave during which no contribution has been paid for the sickness benefits in cash are not taken into account when calculating the 6 months period.

1.1.2. Benefit amounts

Recipients receive the full wage which they earned at the time of occurrence of the incapacity for work. This is computed as the highest wage during one of the last 3 months before the occurrence of the incapacity as well as the average wage accessories and supplements during the 12 months preceding the occurrence of the incapacity.

For a full-time job, the monthly benefit cannot be lower than the social minimum wage (salaire social minimum) (EUR 2 256.95) and may not exceed five times the social minimum wage (EUR 11 284.77). Part-time work reduces these limits proportionally.

1.1.3. Benefit duration

There is no waiting period for receiving benefits, which are provided for a maximum of 78 weeks within a 104-week period, or until the granting of an invalidity pension (pension d'invalidité), whichever duration is shorter. The maximum of 78 weeks includes the period during which the worker benefits from the mandatory employer sick pay. It is important to distinguish the duration of incapacity to work due to illness or injury and the benefit duration of sickness benefit.

An employer must continue to pay his employee in case of sick leave due to illness or an occupational accident and must do so until the end of the month during which the 77th day of sick leave occurs, during a reference period of 18 successive months.

This is the principle of "continuation of pay" (or "Lohnfortzahlung"). See point **1.2** *Mandatory employer sick pay*

As from the month following the 77th day of sick leave, the [National Health Fund](#) (Caisse Nationale de Santé - CNS) takes over from the employer and pays sickness benefits to the employee on sick leave. From this point on, the employer no longer has to pay a salary to the employee, for as long as the employee receives benefits from the CNS.

Reference: <https://guichet.public.lu/en/entreprises/sante-securite/accident-maladie/incapacite-travail/continuation-salaire.html>

1.1.4. Means test

No

1.1.5. Tax treatment

Same as wages except that the sickness benefit is not subject to the employer's accident insurance.

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

Sickness benefit is a replacement income or a replacement earning. That means that it is part of the means test definition of the social inclusion income, of the housing benefit, of the cost-of-living benefit.

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

No cumulation possible

1.2. Mandatory employer sick pay (Conservation légale de la rémunération en cas d'incapacité de travail pour maladie)

1.2.1. Entitlement and eligibility conditions

No minimum period of work or insurance required, except in case of cessation of the labour contract: 6 months of insurance. Periods of unemployment or parental leave during which no contribution has been paid for the sickness benefits in cash are not taken into account when calculating the 6 month period.

1.2.2. Benefit amounts

100% of insured worker's salary.

80% of the worker's salary plus the employers social contributions for health, pension and injury are reimbursed to the employers by a social protection scheme called "Mutualité des employeurs".

1.2.3. Benefit duration

77 calendar days, with no waiting period. The 77 calendar days are calculated on a reference period of 18 successive calendar months. After this duration, the worker benefits from the sickness benefit (See point 1.2 Sickness benefit).

1.2.4. Means test

No

1.2.5. Tax treatment

Same as wages

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

Same as wages

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

No cumulation possible

1.3. Benefit for the leave for family reasons (Indemnité pécuniaire pour congé pour raisons familiales)

1.3.1. Entitlement and eligibility conditions

No minimum period of work or insurance required, except in case of cessation of the labour contract: 6 months of insurance. Periods of unemployment or parental leave

during which no contribution has been paid for the sickness benefits in cash are not taken into account when calculating the 6 month period.

Leave for family reasons is granted on presentation of a medical certificate attesting:

- the illness, accident or other pressing health issue affecting the child;
- the mandatory presence of the parent with the ill child;
- the duration of their presence with the ill child.

1.3.2. Benefit amounts

100% of insured worker's salary paid by the employer.

For a full-time job, the monthly benefit cannot be lower than the social minimum wage (salaire social minimum) (EUR 2 256.95) and may not exceed five times the social minimum wage (EUR 11 284.77). Part-time work reduces these limits proportionally.

The period of leave for family reasons is treated as a period of [sick leave due to illness or accident](#).

During the period of leave for family reasons, the employee benefits from the [continuation of pay](#) by the employer.

The employers' mutual insurance scheme reimburses the employer/self-employed worker the total wage costs (gross salary + employers' costs) during the period of continuation of pay.

The reimbursement takes place if the leave for family reasons was declared by the worker to the competent health fund and by the employer to the [Joint Social Security Centre](#) (CCSS).

If the insured person is no longer entitled to a salary by the employer (>77 sick days within a period of 18 months), the benefits are paid directly by the [National Health Fund](#) (CNS).

1.3.3. Benefit duration

The amount of leave for family reasons depends on the age of the child and is structured as follows:

12 days of leave per child if the child is less than 4 years old;

18 days of leave per child if the child is between 4 and less than 13 years old;

5 days of leave per child if the child is between 13 and 18 years of age, inclusive, and provided the child is hospitalised.

The duration of leave for family reasons can be extended for children with a disease or a disability of exceptional seriousness defined as: cancer with progressive phase, diseases requiring hospitalization in an acute service for minimum two weeks. The extension is limited to 52 weeks on a reference period of 104 weeks.

COVID-19 measures (Not currently implemented in TaxBEN model)

Due to the exceptional situation caused by the spread of Covid-19 and due to the closure of schools and childcare facilities, the government decided to put in place a special leave for family reasons for workers that have to take care for their children (less than 13 years old).

To do this, the regulation concerning the “ordinary” leave for family reasons has been adapted several times, in particular by adding this item: “measures of isolation, of eviction or of home care of children for urgent public health reasons decided by the competent authorities to tackle the spread of an epidemic” in the definition of a “disease or a disability of exceptional seriousness”. According to this new item with effect from the 14 March 2020, parents of children less than 13 years old could benefit from this leave until the reopening of schools and childcare facilities.

This special leave for family reasons does not affect the balance of “ordinary” leave for family reasons. As well as for the ordinary leave for family reasons, **both parents** (and spouse) **cannot take leave for family reasons at the same time (alternatively is possible)**. If **anyone else is able to look after the child**, whether a relative or another member of the household, for example because they have the benefit of short-time work (as from 30 March 2020) during the period for which leave for family reasons is being requested, **the parent cannot benefit from leave for family reasons**.

Since the 25 May 2020, corresponding to the progressive resumption of educational activities in the primary schools and the childcare facilities (with appropriate measures to respect the physical distance), the special leave for family reasons is renewed until 15 July 2020 for workers of a child falling under one of the following categories:

- a child born on or after 1 September 2015 who is **dependent on the applicant**;
- a child under the age of 13 normally enrolled in school, whose school is closed or whose classes remain suspended for reasons directly related to the health crisis, or who cannot be cared for by any school or childcare facility due to the implementation of a plan for alternating the care of pupils or the application of imposed barrier measures;
- a **vulnerable child**. [According to the CSMI recommendations](#), a child is deemed vulnerable if it is suffering from a **respiratory or cardiac pathology** or is **immuno-depressed**.

The special leave for family reasons will be extended until 17 July 2021 for workers in care of a child falling under one of the following categories:

- a child born on or after 1 September 2016 who is **dependent on the applicant**;
- a child under the age of 13 normally enrolled in school, whose school is closed or whose classes remain suspended for reasons directly related to the health crisis, or who cannot be cared for by any school or childcare facility due to the implementation of a plan for alternating the care of pupils or the application of imposed barrier measures;
- a **vulnerable child**. [According to the CSMI recommendations](#), a child is deemed vulnerable if it is suffering from a **respiratory or cardiac pathology** or is **immuno-depressed**.

The special leave was extended until 30 April 2022 with minor changes to eligibility conditions.

1.3.4. *Means test*

No

1.3.5. *Tax treatment*

Same as wages

1.3.6. *Interactions with other components of the tax-benefit system*

Same as wages

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

No cumulation possible

1.4. Short-time work compensation schemes (*Indemnité de chômage partiel*)

1.4.1. Entitlement and eligibility conditions

In order to protect jobs and thus **prevent redundancies**, the Luxembourg labour law allows businesses, under certain conditions, to resort to **various short-time working (*chômage partiel*) schemes** depending on the nature of the difficulties encountered:

- Short time-working due to structural economic problems
- Short time-working due cyclical economic problems
- Short time-working due to economic dependence
- Short-time working in the event of force majeure.

To be eligible for short-time working, the company must be established in Luxembourg, hold, where applicable, a [business permit](#) granted by the competent authority, and undertake to not make any employee redundant for economic reasons.

Short-time working schemes can be applied to all employees with their place of work in Luxembourg, whether they are under a [permanent employment contract](#) or a [fixed-term employment contract](#). Short-time working schemes **cannot be applied to apprentices, to temporary workers or workers having tendered/received their notice.**

1.4.2. Benefit amounts

During the period of short-time work, the employer pays each employee:

- the salary due for every hour worked;
- and a compensatory allowance corresponding to:
- at least 80 % of the normal salary for inactive hours;
- at least 90 % of the normal salary if the worker has participated in continuous vocational training during inactive hours.

The State reimburses the employer the compensatory allowance (80 % or 90 % of the gross salary) normally received by each employee for the inactive hours up to a maximum of 250 % of the [social minimum wage](#) for unskilled workers (the balance of the salary remains payable by the employer).

COVID-19 measures (Not currently implemented in TaxBEN model)

From the beginning of the Covid-19 crisis in March 2020, the Government has decided that the STW compensatory allowance **may not be less than the amount of the social minimum wage for unskilled workers.**

Any difference between the amount of the compensation and the social minimum wage for unskilled workers will be borne by the Luxembourg Employment Fund until 30 June 2022.

1.4.3. Benefit duration

The permission to make use of the provisions concerning short-time working can only be granted for a maximum of 1,022 hours per year and per full-time working employee. For persons working on a part-time basis, the limit of 1,022 hours are pro-rated.

In the case of STW due to structural economic difficulties, the limit of 1,022 hours can be raised to 1,714 hours if the requesting company is undergoing a fundamental

restructuring and has agreed upon a job protection plan (“Plan de maintien dans l’emploi”) as a result of sectoral tripartite negotiations between social partners and the Government (Law of 24 November 2021).

1.4.4. Means test

The benefit is not means-tested.

1.4.5. Tax treatment

Employers who resort to short-time working have to continue to pay the following to the competent public administrations:

social contributions (the employer's and the employee's share) and withholding tax on salaries paid for hours worked;

social contributions (the employer's and the employee's share) and withholding tax on the compensatory allowance paid for inactive hours, with the exception of the following employer's contributions: accident insurance contributions and family benefits.

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

Short-time work compensation is a replacement income meaning that

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

In the event of an employee on sick leave during the period of short-time work, the employer continues to pay the salary as in any case of [incapacity for work](#).

Employees who are on part-time parental leave or split parental leave can benefit from short-time working for the working hours normally worked.

Companies have the possibility to temporarily place one or more of their employees at the disposal of another employer (prêt temporaire de main-d'œuvre). In these arrangements, employees will continue to be paid by their primary employer (lender), and the temporary employer reimburses the primary employer for their employees' salaries plus a portion of their benefits programs.