



Global Reward Update

Luxembourg

Key points to know

- On 14 October 2020, Luxembourg's Finance Minister presented a draft 2021 budget bill (the "Bill") in which various individual tax changes were proposed.
- With effect from 1 January 2021, the three key changes that impact employee reward are:
 - I. Introduction of a new proposed Profit Sharing Scheme (PSS);
 - II. Updates to the tax system for impatriates; and
 - III. Abolition of the existing 2017 Circular relating to the taxation of 'stock options' and 'warrants'.

Profit Sharing Scheme

To help attract and retain key employees, the Luxembourg government proposed to introduce a new approach allowing employees to participate in corporate profits in a tax efficient way. The key benefits of the Profit Sharing Scheme are:

- participants receive a 50% individual income tax exemption on amounts paid to them under the scheme;
- any amount paid will be considered corporate tax deductible for the local employer; and
- the plan is discretionary and therefore the employer can choose which employees participate.

Awards under the PSS are subject to certain criteria for both the employer and employee, as listed below:

Employer criteria:

- The employer must earn the profit from commercial, agricultural, forestry operations or independent activities in the relevant tax year.
- The total amount awarded to employees must not exceed 5% of the employer's profits for the relevant year (i.e. 2020 profits in case of awards made in 2021).
- Employers wishing to use this new profit-sharing scheme must file the prescribed forms with the local tax authorities.

Employee criteria:

- The award must not exceed 25% of the employee's gross ordinary annual remuneration (i.e. excluding any cash, bonuses or premium, benefit in kind, etc.).
- Participants must be employees of a Luxembourg entity and Luxembourg taxpayers.

Impatriate tax regime

The impatriate (i.e. employees moving to Luxembourg) tax regime has been amended as follows:

- An impatriation premium will be introduced. This allows employers to pay employees a cash premium which will benefit from an income tax exemption of up to 50%, provided the premium does not exceed 30% of the individual's annual remuneration;
- Impatriates would benefit from the tax exemptions for a period of up to eight consecutive years following the year they move to and start work in Luxembourg, instead of a maximum of five years, as currently;
- Companies will no longer need to employ 20 or more full-time equivalent employees to obtain the tax benefits; and
- The minimum salary required for this regime to be available has increased to EUR100,000 from the previous level of EUR50,000.

2017 Circular

With effect from 1 January 2021, the Circular dated 29 November 2017 relating to the taxation of 'stock options' and 'warrants' has been abolished. The key changes are as follows:

- It is no longer possible to apply a lump-sum valuation method in order to calculate the taxable benefit deriving from the vest of any 'stock options' or 'warrants'.
- It is no longer possible to apply any discount to awards that are subject to a blocking/ holding period (previously it was possible to apply a discount to the fair market value of such awards of 5% per full-year up to a maximum of 4 years).
- The Circular also allowed employees to sell their shares within seven days of acquisition following vest/exercise without any tax implications; however, this has now been removed.
- There is no longer a requirement to notify the tax authorities at the tax point.

Deloitte's view

We welcome the introduction of the new Profit Sharing Scheme and the key changes to the impatriate tax regime, both of which will benefit employers and employees.

The abolition of the 2017 Circular will not prohibit companies from implementing incentive plans for their Luxembourg employees, but it will require further attention when determining the employee income tax and social security treatment.

Who to contact

If you would like to discuss this further, or have any questions, please speak to your usual Deloitte contact or any of the contacts listed below:

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