

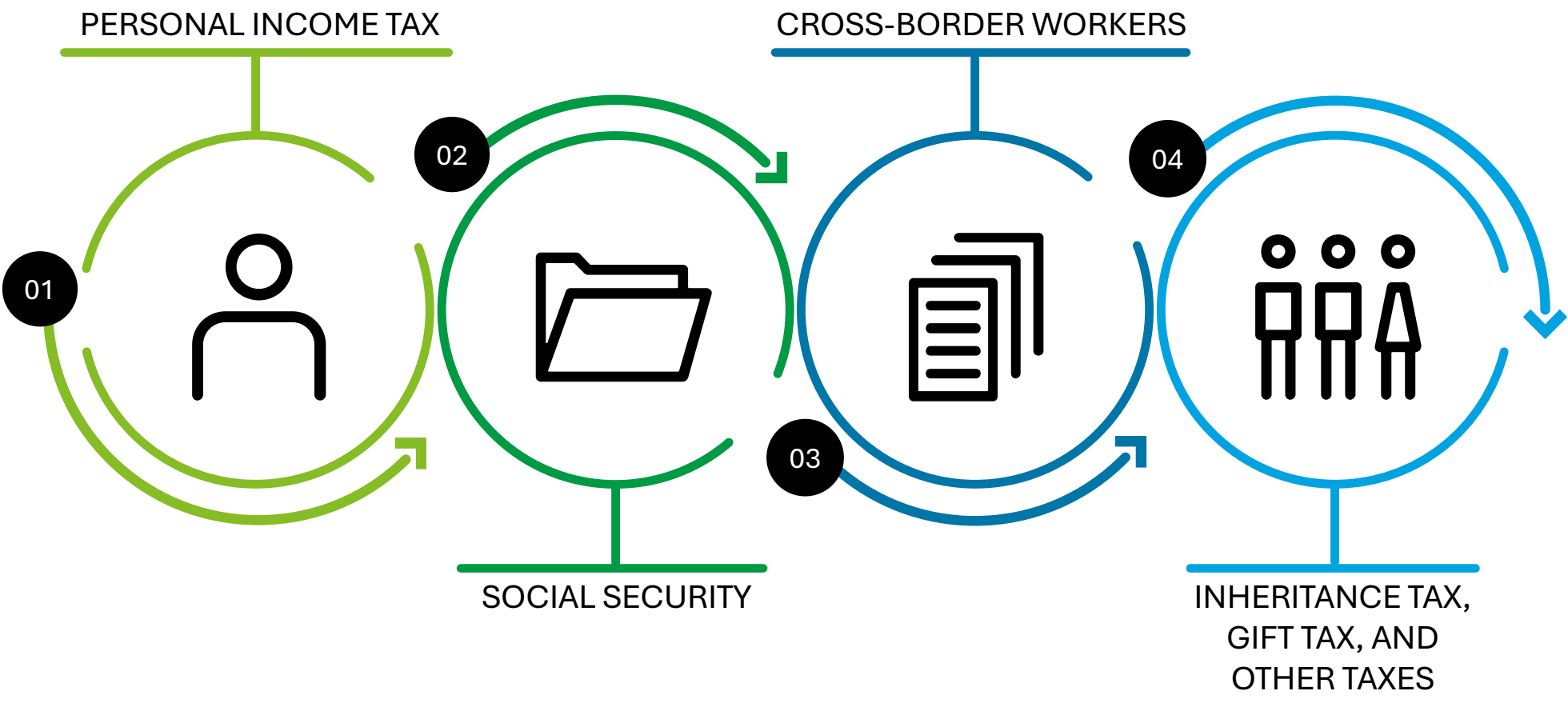


Luxembourg

Individual Tax Guide 2025

March 2025

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PERSONAL INCOME TAX



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Filing status

- Married individuals, joint taxation.
- Individuals linked by a legal partnership can opt for joint taxation (provided certain conditions are met).
- In general, married taxpayers are subject to joint taxation. However, they can also elect to be taxed separately (choice to be made before **31 December 2026** at the latest for CY 2025 individual tax returns).
- Non-resident married taxpayers are by default subject to single taxation. They may elect to joint taxation if certain conditions are met. In such case, they are obliged to elect for the assimilation to resident, file a resident tax return reporting their worldwide income.



Tax year

- The tax year corresponds to the calendar year.



Categories of taxable income

- Employment income
- Self-employment income
- Dividends and interests
- Capital gains and other miscellaneous income
- Pensions and annuities
- Rents and royalties
- Business income, agricultural and forestry income



General filing due dates

- The filing deadline for CY 2025 individual tax returns is set at **31 December 2026**.



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Tax classes and 2025 tax rates in Luxembourg



In Luxembourg, taxpayers are classified into three distinct tax classes based on their marital status, family situation, and age. The following table provides an overview of these tax classes for 2025:

Tax class	Description	Applicable tax rates			
Class 1	Single individuals without children, including unmarried, divorced, or widowed individuals (after three years of widowhood)	%	€	%	€
		0	0 – 13,200*	41	0176,200 – 234,850
		8-39	13,250 – 117,450	42	Over 234,900
		40	117,500 – 176,150		
Class 1a	Single individuals with dependent children and single taxpayers aged 65 or older on 1 January of the tax year.	%	€	%	€
		0	0 – 26,450*	41	176,200 – 234,850
		1-39	26,500 – 117,450	42	Over 234,900
		40	117,500 – 176,150		
Class 2	Married individuals and civil partners (under certain conditions). Also applies to widowed individuals (for the first three years of widowhood) and separated individuals (for the first three years of separation).	%	€	%	€
		0	0 – 26,450*	40	234,950 - 352,300
		8-36	26,500 – 103,550	41	352,350 - 469,700
		38	103,600 – 108,150	42	Over 469,750
		39	108,200 – 234,900		

- **Surcharge for employment fund:** 7% for income not exceeding €150,000 (€300,000 for couples taxed jointly), and 9% for income above these amounts.
- **Highest tax rate including surcharge:** 45.78%** excl. 1.4% contribution dependance



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Tax credits

➤ There are various tax credits available in Luxembourg, with amounts that progressively depend on the taxpayer's income level:

- For employees: **Employee Tax Credits "CIS" and "CI-CO2"** range respectively from €0 to €600 and from €0 to €168 and are granted up to an annual gross salary of €80,000.
- For independent workers: **Tax credits "CII" and "CII-CO2"** range respectively from €0 to €600 and from €0 to €168 and are granted up to an annual benefit of €80,000.
- For Pensioners: **Tax Credits "CIP" and "CIP-CO2"** range respectively from €0 to €600 and from €0 to €168 and are granted up to an annual gross pension of €80,000.

➤ **"CIS" tax credit:** The tax credit for employees (CIS) is determined as follows for a gross salary (including the salary exempt under article 134) ranging from:

- From €936 to €11,265, the CIS amounts to $[300 + (\text{gross salary} - 936) \times 0.029]$ euros per year;
- From €11,266 to €40,000, the CIS amounts to 600 euros per year;
- From €40,001 to €79,999, the CIS amounts to $[600 - (\text{gross salary} - 40,000) \times 0.015]$ euros per year.

➤ **Single Parent Tax Credit** is set as follows, for a taxpayer's adjusted taxable income:

- Below €60,000, the single-parent tax credit amounts to €3,504;
- Between €60,000 and €105,000, the amount is $[3,504 - (\text{adjusted taxable income} - 60,000) \times 0.0612]$;
- Above €105,000, the amount is €750.

➤ **Crédit d'impôt salaire social minimum (CISSM).** This is applicable to employees and apprentices with salaries between €1,800 and €3,600:

- From 1,800 euros to 3,000 euros, the CISSM amounts to 81 euros per month;
- From 3,000 to 3,600 euros, the CISSM amounts to $81 / 600 \times [3,600 - \text{gross monthly salary (fictional)}]$ euros per month.

The CISSM tax credit is calculated based on the employee's gross monthly salary when they work full-time for an entire month. If that is not the case, the tax credit is calculated based on a theoretical gross monthly salary –what the worker would have earned if they had worked full-time for the entire month under the same salary conditions.

➤ **Crédit d'impôt pour Heures supplémentaires (CIHS).** The CIHS tax credit is determined as follows for a gross salary ranging from:

- Below €1,200 a year, the CIHS is not granted;
- Between €1,200 and €4,000 a year, the CIHS amounts to $[(\text{gross earnings} - 1,200) \times 25 \text{ percent}]$ euros a year;
- Above €4,000 a year, the CIHS amounts to 700 euros a year.



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Income from independent activities

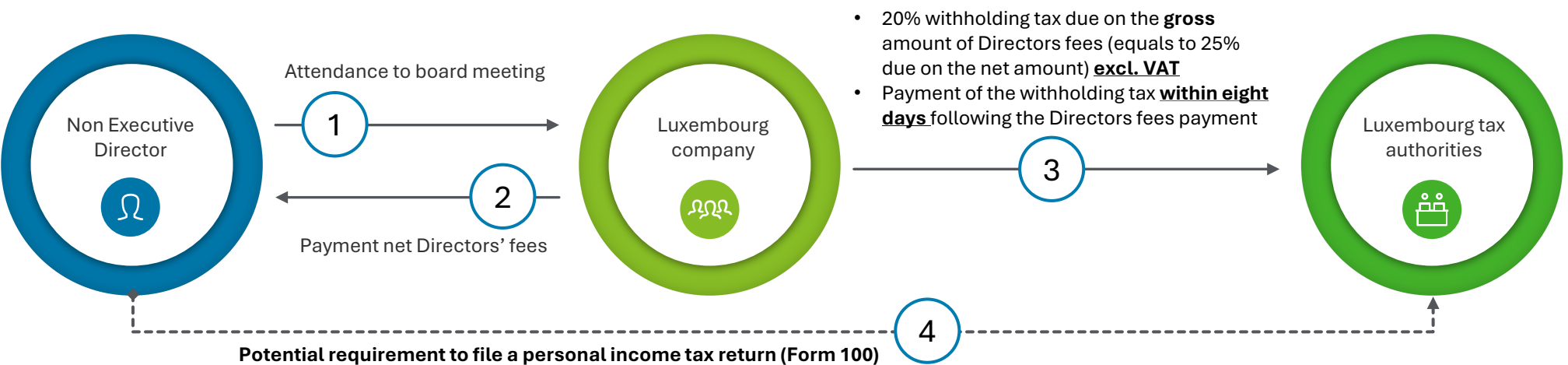
Self-employed people, such as independent directors or lawyers, will also be taxed under the same parameters, but will not benefit from available employee tax credits.

Director fees

Director fees are subject to a 20% withholding tax upon payment and must be declared and paid to the Luxembourg tax authorities within eight days following the date of payment of the income.

As from January 2025, the declaration of withholding tax on directors' fees must be **filed electronically** with the Administration des Contributions Directes (ACD).

Remuneration for the daily management (Executive Directors) of a company is **not covered by the concept of director's fees**, but it falls within the scope of income from paid employment. However, the remuneration of Non-Executive Directors, who provide independent oversight or strategic guidance, is considered director fees, not salary, and is subject to a 20% withholding tax.



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Inpatriate tax regime (ITR)



The inpatriate tax regime in Luxembourg offers a compelling package of tax benefits designed to attract highly skilled foreign workers and their employers to the country. This incentive is part of Luxembourg's strategic efforts to enhance its workforce with international talent, thereby fostering economic growth and competitiveness.

Since 1 January 2021, this regime is included in the Income Tax Law. The terms governing the ITR have been significantly updated by the Law A589 enacted in December 2024. Under these changes, inpatriate employees who meet the conditions below, can receive a **50% tax exemption** on their annual salary, excluding benefits-in-kind and other benefits in cash payments, such as severance payments due to contract termination or company closure, orphan pensions, service anniversary and retirement gifts, and participative premiums. The exemption applies **only up to a maximum gross annual remuneration of 400,000 euros** and is excluding Benefit-in-kind as well as other payment already benefitting from a tax exemption according to applicable legislation.

For the sake of completeness, the **previous version of the regime** (until 31 Dec 2024) allowed income tax exemptions only for certain costs incurred by the employer (non-recurrent vs. recurrent expenses).

List of previous possible deductions: Relocation and repatriation expenses (with certain limits), cost of living allowance (with certain limits), certain travel expenses, housing expenses (a cap applies), home leave (annual journeys between Luxembourg and the home country), additional school fees for children, expenses related to the tax difference between Luxembourg and the relevant home country (i.e. tax equalization), expatriate premium/bonus: 50% tax exempt (gross amount cannot exceed 30% of annual base salary).



In both cases, social security contributions linked to exempted income through the inpatriate tax regime are not deductible from tax purposes.

OLD REGIME (until 31 Dec. 2024)					
Example	Gross Income		Relief under ITR		Taxable Income
Base Salary	200,000	—	0	=	200,000
Relocation	15,000	—	15,000	=	0
Housing	36,000				
Home Leave	5,000	—	60,000	=	61,000
Tax Equalization	80,000				
School Fees	28,000	—	28,000	=	0
Impatriation Premium	60,000		30,000		30,000
Total (in€)	424,000	—	133,000	=	291,000

NEW (starting 1 Jan. 2025)					
Example	Gross Income		Relief under ITR		Taxable Income
Base Salary	300,000	—	150,000	=	150,000
Company car	12,000				12,000



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Conditions for employee eligibility to the ITR:

- Must be Luxembourg tax resident according to domestic tax law.
- Must not have been a Luxembourg tax resident, lived within 150km of the Luxembourg border, or had professional income taxed in Luxembourg for the five years prior to employment in Luxembourg.
- The employment activity must be the main professional occupation of the taxpayer, with a minimum annual gross salary of €75,000.
- Further conditions apply for seconded employees.
- Must not replace a non-inpatriate employee.

Conditions from the employer's side:

- Expatriates eligible for exemptions must not exceed 30% of the total workforce, with part-time employees counted proportionally. This condition does not apply to companies established for less than ten years as of 1st January of the current year.

If the conditions are met by both the employee and employer, it's important to note that the employer has sole discretion in applying the regime.



There is an obligation to notify the Luxembourg Tax Authorities about the regime by sending a list of employees who benefited from it by 31 January of the following year.

The regime lasts until the end of the eighth year following the arrival in Luxembourg and ceases to apply in case one of the conditions is not met.

Maintenance of the old regime or shift to the new one?

- For employees under the older regime who would like to switch to the new regime, they should **explicitly** choose to apply the new measures. The switch is **irrevocable** and must be made before **January 31 of the following year (N+1)**.
- The employee who has opted for the application of the new regime should benefit from the exemption **until the end of the eighth tax year** following the employee's start of service in Luxembourg.



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Participative Premium



The “prime participative” (PP) is a way for Luxembourg employers to pay variable remuneration to their employees. This remuneration model allows employers to grant such a premium to some or all their employees, based on the employer's financial results (i.e., profits) if certain conditions are met at the level of both the employee and the employer.

The prime participative benefits of a 50% personal income tax exemption in Luxembourg and remains subject to social security contributions.

To benefit from it, criteria to be met are:

- The employer must make a profit to distribute up to 7,5% of it to its employees through the prime participative, provided that regular accounting is maintained throughout the year of distribution and the preceding year.
- The beneficiary employee has to be affiliated on a compulsory basis to the Luxembourg social security (or to a foreign social security scheme covered by bi- or multilateral social security instrument).
- The prime participative cannot exceed 30% of the employee's gross ordinary annual remuneration (excluding cash, in-kind benefits, bonuses, premiums, etc.).

Since January 2023, groups of companies that are part of a fiscal unity may upon option election assess the 7.5% threshold limit on an aggregated basis, rather than on a standalone basis. The use of this possibility triggers additional compliance obligations that must be carefully done.

UPDATE 2025: The PP scheme terms were updated by the Law of 20 December 2024, raising the participative premium ceiling from 25% to 30% and the profit-sharing ceiling for entities from 5% to 7.5%.

PRIME PARTICIPATIVE PROFIT-SHARING BONUS

New way for Luxembourg employers to pay variable remuneration to their employees.

50%

The Prime Participative benefits of a 50% personal income tax exemption in Luxembourg.



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“Prime jeune” – Youth Premium

The "Prime jeune" or the "youth premium" is a new premium starting in 2025 for young employees. It offers a 75% income tax exemption, meaning 75% of the annual premium paid by the employer to a qualifying young employee entering the Luxembourg labor market is tax-free.

The maximum annual amount of the youth employee bonus eligible for exemption, based on a full-time position, is determined as follows for a gross salary (including the salary exempt under Article 134) ranging from:



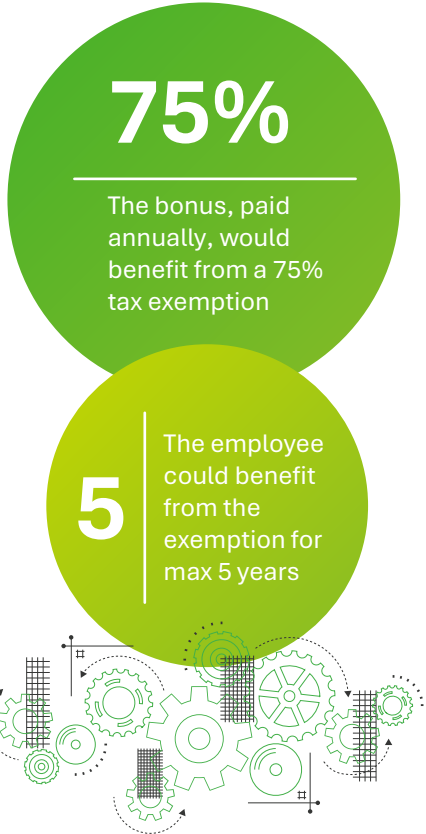
The young employee's bonus is exempt, as mentioned above, if the following conditions are met when it is provided by the employer

- The employee is **under 30 years old** at the start of the tax year;
- The employee has a first permanent employment contract with an employer based in Luxembourg or with a foreign employer that has a permanent establishment in the Grand Duchy;
- The first young employee's bonus was paid **less than five years** before January 1 of the tax year.



Change of employer?

In the event of a change of employer, the employee is no longer eligible for exemption from the young employee bonus. The exemption applies only to open-ended employment contracts signed on or after the **date of 1 January 2025**.



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Rental Premium - "Prime locative"

Starting in 2024, to help young workers enter the job market, employers can choose to offer a 'Prime locative' premium for renting the main residence. This premium is 25% exempt from personal income tax, meaning 25% of the monthly premium paid by the employer for the employee's main residence rent is tax-free.

The maximum monthly amount of the rental subsidy, determined for a full-month, full-time occupation, giving rise to the exemption is **1,000 euros**.

The rental subsidy is exempt, as mentioned above, if the following conditions are met when provided by the employer:

- The employee is **under 30 years old** at the start of the tax year;
- The amount paid by the employer cannot exceed the rent paid by the employee, excluding charges, as shown in the lease contract;
- The employee's gross annual remuneration, including all salary and benefits (excluding the rent subsidy), must not exceed **thirty times the minimum monthly** social wage for skilled workers.

To ensure compliance with legal requirements, the employee must provide the employer with the necessary proof of rental.



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Allowances/deductions

Category	Amount
Debit interest on private loans Insurance premium	€672 / year and per member of household
Contribution to individual pension scheme / Pan-European Pension Product	€3,200 / year and subscriber – per member of household
Alimonies (per divorced spouse)	€24,000 / year
Alimonies children	€5,424 / year for each child
Charitable contributions	The lowest between €1,000,000 or 20% of the household’s taxable income
Home savings scheme	€1,344 / year for subscriber aged between 18 and <41 years, in any other cases €672 / per member of household
Childcare and Housekeeping costs	€5,400 / year



Reimbursement for business trips

- **Mileage:** €0.30/driven km
- **Lodging and meals:** refund of actual costs engaged or lump-sum compensation (varying according to the country).



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Rental Income

Rent
/ Loan Interest
/ Building depreciation
/ Other deductible expenses
= TAXABLE BASIS



NEW CEILING 2025

Mortgage interest for main residency

- Full deduction the year when the rental value is determined plus the following year.
- €4,000 per member of household for the three following years
- €3,000 per member for the following five years
- €2,000 per member afterwards



Investment Income

Interests under Relibi Law	Interests out of Relibi Law	Dividends art. 115-15a LITL	Dividends out of art. 115 15a LITL
		Exemption of 50% of gross income	
20% final taxation	General exemption of EUR 1,500 (doubled for couple filling jointly)		
	Deduction of lump-sum cost of EUR 25 (doubled for couple filling jointly) or actual costs		
	= TAXABLE BASIS		



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Potential extension of 2024 real estate measures



Following the government's coalition program and recent announcements, the Bill n°8470/0 has been published and currently follows its legislative process, providing a first package of measures to enhance real estate investments which includes several tax measures.

The below measures were adopted for 2024 and are currently applicable until the **30th of June 2025**.

- **Allowance for registration and transcription duties for the acquisition of the main residence ("Bëllegen Akt"):** the existing €30,000 allowance will be temporarily increased to €40,000 for each individual and will apply to transactions taking place between 1 January 2024 and 31 December 2024. The validity of this measure should be extended only until the 30 June 2025.
- **Allowance for registration and transcription duties for investment in rental properties by individuals:** this new allowance is dedicated to investments in rental properties and amounts to €20,000 per individual.
- **Reduced Registration fees:** Registration fees were reduced from 7% to 3,5% for existing properties and off-plan (VEFA) purchases, applicable to primary residence acquisition and only new properties for investors.
- **Accelerated depreciation:** Increased to 6% per year for six years, exclusively for (VEFA) contracts signed until 30 June 2025.
- **Neutralization of real estate capital gains:** individuals realizing real estate capital gains at least two years after the asset's acquisition will be granted a rollover relief if proceeds are reinvested in real estate rented under the condition of Article 49 of the Law of 7 August 2023 (i.e., social rental) or in real estate falling within the A+ class for energy performance, thermal insulation and environmental performance as defined in the Grand-Ducal decree of 9 June 2021.



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Capital gains



Rental Income

Long-term capital gains		
Securities (>6 months)	if participation ≤10%: exempt	
	if participation >10%: ½ tax rate	
Real estate (>2 years)	¼ tax rate	UNTIL 30 JUNE 2025
Real estate (>5 years)	½ tax rate	AS FROM 1 JULY 2025

First €50,000 of long-term taxable gains (€100,000 for couples taxed jointly) in a 11-year period is **tax exempt**.

Short-term capital gains (speculative gains)	
Securities and any other movable properties (≤6 months)	Full tax rate
Real estate (≤2 years or 5 years as from 2025)	Full tax rate

Substantial shareholding:

The concept of "substantial shareholding" in Luxembourg tax law is defined under Article 100 of the Law on Income Tax (LITL).

According to this provision, a shareholding is considered substantial if an individual, at any point within a five-year period preceding a taxable event, holds directly or indirectly, individually or jointly with household members (i.e., spouse and minor children), more than 10% of the share capital of a company. This definition is crucial for various tax implications, including those related to capital gains on shares.

Transfer of tax residence in Luxembourg:

A “step-up” mechanism may be available for individuals upon transfer of tax residence to Luxembourg.



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Imputed income for personal use of company car



Recognizing the energy transition as a major challenge, Luxembourg has introduced a favorable tax rate to encourage the use of electric vehicles. These changes reflect Luxembourg's efforts to promote environmentally friendly vehicles, especially electric cars, as part of its broader sustainability goals.

The determination of this benefit in kind is based on two main factors: the vehicle's motorization and the level of CO2 emissions. A table of percentages is then used to apply these rates on the value of the vehicle (new, including options and VAT).

- Company cars registered **from 1 January 2022** without being the subject of a contract signed until 31 December 2021;
- All company cars registered **from the year 2023** onwards, and;
- Company cars for which a leasing contract has been concluded **until the end of 2024**, provided that the registration of the vehicle takes place before 31 December 2025.

CO2 emission	Gasoline	Diesel	100% Electric		
g/km			a)	b)	Neither
0			<=18kWh	<=20kWh/100k	a) nor b)
>0-50	0,80%	1,00%		m	applicab
>50-80	1,00%	1,20%		AND	le
>80-110	1,20%	1,40%		Power	
>110-130	1,50%	1,60%		propulsion	
>130	1,80%	1,80%		system	
				<=150kWh	
			0,50%	0,50%	0,60%

- Newly registered company cars from 1st January 2025, for which no contract will be signed before 31 December 2024.

Gasoline and Diesel	Hydrogen fuel cell vehicle	100% Electric
2%	1,00%	a) <=18kWh b) <=20kWh/100km AND Power propulsion system <=150kWh Neither a) nor b) applicable
		0,50% 0,50% 0,60%

- Newly registered company cars from 1st January 2027, for which no contract will be signed before 31st December 2026.

Gasoline and Diesel		Hydrogen fuel cell vehicle	100% Electric		
2%		1,00%	a) ≤18kWh	b) ≤20kWh/100km AND Power propulsion system ≤150kWh	Neither a) nor b) applicable
			1%	1%	1,2%



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Social security

Wage earners/Self-employed

Coverage	Wage earner (%)	Employer (%)
Sickness ^{1, 2}	2.80 / 3.05	2.80 / 3.05
Pension ¹	8.00	8.00
Accident ⁵	–	0.70 ⁵
Mutual insurance ^{1, 3}	–	0.07 to 2.64
Health at work ¹	–	0.14
Dependence ⁴	1.40	–
Total	12.20 to 12.45	11.71 to 14.53

Coverage	Self-employed (%)
Sickness ¹	6.10
Pension ¹	16.00
Accident ⁵	0.70
Mutual insurance ^{1, 3, 6}	0.07 to 2.64
Health at work ⁶	0.14
Dependence ⁴	1.40
Total	24.41 to 26.98

- 1. Contributions computed on a yearly gross remuneration capped for both employee and employer to an annual ceiling of €158,267.58 (cost of living index 944.43 in force in September 2023), tax deductible.
- 2. Rate varying depending on the nature of the remuneration (base salary, benefits in kind, etc.).
- 3. Wage earners - Manual and non-manual activity
Depends on the average rate of absenteeism.
- 4. Not capped, not tax deductible.
- 5. Risk factor : 1 - subject to a bonus-malus factor. The rate of Accident at work depends on a bonus/malus coefficient (from 0.85 to 1.5) defined and displayed by the Association d'Assurance Accident. This coefficient is based on the class of risk and the number of accidents at work in the company (professional sickness and commuting accidents are excluded) over the period from 1st April Y-2 to 31st March Y-1.
- 6. Optional contribution.



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Cross-border workers

Tax and social security limitations: Main take aways






Are concerned by the following slides:
Belgian, French and German tax residents




With a Luxembourg contract

Tax threshold

Cross-border workers Luxembourg tax non-residents can work up to 34 days **outside of Luxembourg** without triggering personal taxation impacts in their country of residency.






Once the 34-day threshold is reached

If more than 34 working days are spent outside of Luxembourg, the related remuneration should be taxable in the tax residency country as from the first day*

**Unless provided otherwise according to the relevant Double Tax Treaty into force.*



What should be done?

Tracking of remote/other country workdays carefully in case of audit or request from the tax authorities.



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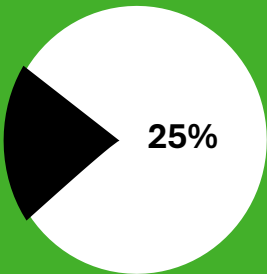
Cross-border workers

Tax and social security limitations: Main take aways

Important Rule – Applicable to Multi-State Workers Only
(Different rules apply for secondments and other situations)

Social security rule

Luxembourg tax non-residents should not work more than 25% of their time in their country of tax residence



What should be done?

Requesting an A1 for multi-state worker is mandatory



Framework agreement

Upon request, the 25% can be increased up to 49% of homeworking activity in the country of residency without jeopardizing the social security system applicable

- No additional habitual activity pursued in the country of residency
- No habitual activity pursued in other countries



If breached

- Social security shifts from Luxembourg system to home country on 100% of remuneration
- Increase in costs and administrative complexity



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Inheritance & gift tax



**No inheritance
tax in direct line**



**Rates for other
degrees:
0% to 48%**



Gift tax:
rates between
1.8% and 14.4%



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Other taxes



VAT

- Standard rate: 17%.
- Intermediary and Reduced rates for some goods and services: 14%, 8%, 3%.
- The super reduced VAT 3% applies to photovoltaic installation from 1 January 2023 and has not been modified for 2025.



Municipal business tax

- Varies by municipality (from 6,75% to 10,5%), e.g., 6.75% for Luxembourg-city.



Corporate income tax

- CIT tax rate has been reduced of 1%, i.e., from 17% to 16%.
- Overall tax rate for company located in Luxembourg-city is now 23.87% (considering the solidarity surtax of 7% on the CIT rate and including the applicable 6.75% municipal business tax rate). The overall tax rate of companies having a taxable result below €175,000 is 21,73%.



01

PERSONAL
INCOME TAX

02

SOCIAL
SECURITY

03

CROSS-
BORDER
WORKERS

04

INHERITANCE
TAX, GIFT TAX,
AND OTHER
TAXES



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