

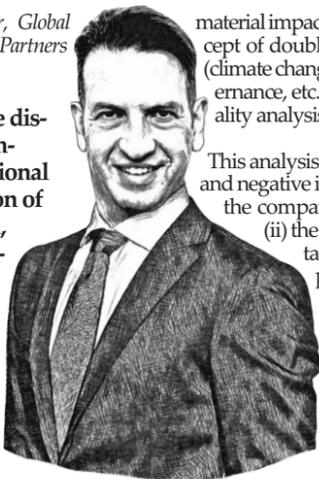
Impacts for the new EU ESG Regulatory Compliance Framework?

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In our last articles in Agefi, we discussed the importance of compliance as an effective operational instrument in the implementation of European Environmental, Social, and Governance (“ESG”) regulations. However, matters may have regressed last year through the revisiting of the various relevant European texts. Indeed, on December 16, 2025, the so-called “Content” Directive was adopted with the major objective of reviewing environmental rules, while maintaining the competitiveness of European companies facing exacerbated global competition.⁽¹⁾

Firstly, the “Content” Directive aims to enshrine the amendments to the European Corporate Sustainability Reporting Directive (“CSRD”) and the Corporate Sustainability Due Diligence Directive (“CSDDD”).

As a reminder, the CSRD aims to provide a framework for non-financial reporting at the European level by aligning corporate disclosure standards with the objectives of the European Green Deal and the Sustainable Finance Disclosure Regulation (“SFDR”), the green taxonomy and the European duty of vigilance. The initial stated goal was for a large number of companies to follow mandatory European sustainability reporting standards and to disclose detailed information on their ESG risks, opportunities and



material impacts. This CSRD introduced the concept of double materiality, i.e. all ESG criteria (climate change, biodiversity, social issues, governance, etc.) are subject to a financial materiality analysis.

This analysis takes into account (i) the positive and negative impacts of sustainability issues on the company’s financial performance, and (ii) the significance of the impact, which takes into account the company’s positive and negative impacts on its economic, social and natural environment. European Sustainability Reporting Standards (“ESRS”) help guide the reporting methodology for all companies and harmonise disclosures to make them more transparent and comparable.

The new package significantly reduces the number of companies subject to the CSRD thanks to the adoption in the plenary of the European Parliament of the compromise reached in the trilogue finalising the agreement of the co-legislators.

On the operational level, the new requirements introduce a new scope with an obligation limited to companies with a turnover of more than €450 million and employing less than 1000 employees, a reporting requirement from 2029 for groups with parent companies from third countries if the turnover in the EU exceeds €450 million and €200 million for subsidiaries and branches, and a single wave of reporting from 2028 which translates, for *vaxe 1* companies, into a continuation of reporting in 2026-27 and then an application of the simplified ESRS from 2028. Member States will be able to exempt certain listed companies with less than 1,000 employees, and from

2026, companies with less than 1,000 employees can refuse excessive requests for information, together with a review clause allowing for a possible review of the thresholds by April 2031, with a simplified regime option and a value chain cap, i.e. a cap on the information that can be requested from entities in the value chain on the basis of the future voluntary reporting standard.

With regard to the CSDDD, the original objective of the Directive required companies to identify, mitigate and report on the impact of their activities and supply chains on human rights and the environment. The Directive is based on the principles of liability, due diligence, transparency and redress, with redress being for damage caused by a company’s activities, including the provision of redress to persons affected by human rights violations or human or environmental damage.

Regarding the new features concerning the CSDDD, the date of application is now postponed to July 2029. Among the changes we can note, a new scope that will concern companies employing more than 5000 employees and achieving more than €1.5 billion in turnover that will have to carry out due diligence on the negative impacts, an integrated review clause concerning the scope, the abolition of civil liability harmonised at EU level, the transition from exhaustive mapping to a “risk-based” approach focused on high-impact links, with the reform no longer providing for a climate transition plan.

The CSRD and the CSDDD are not the only texts to have been amended at the end of last year. The European regulation against deforestation and forest degradation (“EUDR”) also sees the date of its entry into force postponed and simplifications adopted. The initial objective of this European regulation was to apply to all products imported into the European

Union or exported outside the EU by requiring the companies concerned to implement due diligence measures to ensure the absence of deforestation in the production process of 7 commodities that may come from deforested areas (cocoa, coffee, oil palm, rubber, soybeans, timber, and livestock).

Products imported or exported from the EU must comply with the zero deforestation standard, comply with the legislation of the country of production and be subject to a due diligence declaration. The compliance plan will be broken down into 3 steps, namely (i) the collection of all data allowing the upstream and downstream traceability of the product, (ii) an assessment of the deforestation risk, and (iii) a deforestation risk mitigation plan.⁽²⁾

On 17 December 2025, Parliament adopted targeted amendments to this text by changing the postponement date. Indeed, all companies will have an additional year to comply with the new EU rules to prevent deforestation, i.e. 30 December 2026 and 30 June 2027 for small operators – individuals and companies with less than 50 employees and an annual turnover of less than €10 million in the products concerned.

The recast of the regulation also aims to simplify the requirements for due diligence, as such micro and small primary operators will now only have to submit a single simplified declaration. In addition, printed products are removed from the scope of the regulation, as requested by Parliament.⁽³⁾

The legal and compliance teams will have to be attentive to these various changes as part of the conduct of their regulatory projects.

1) <https://urls.fr/HcA5yb>
2) NJ TIR, Compliance at the crossroads of ESG issues in Europe, Agefi Luxembourg, 03/2024
3) <https://urls.fr/MXOKlc>

2028 Individual tax reform:

A philosophical change with concrete tax impacts

By *Julien LAMOTTE, Tax Partner, and Caroline GALAND, Senior Manager, Deloitte Tax & Consulting S.à r.l.*

Although it did not arrive as a Christmas gift, it was presented as a New Year’s offering. On 6 January 2026, the Luxembourg government released draft Bill No. 8676 on the simplification of the individual tax system. This reform, which has been anticipated since 2013, is expected to take effect in 2028. Progress has been gradual, with the first step being the introduction – during the 2017 tax reform – of the option for taxpayers to elect individual taxation.

An overview of the changes

The Luxembourg individual taxation system has long been structured around different tax classes, reflecting the underlying principle that taxation should take into account household composition. A comprehensive reform is now on the horizon, providing for the repeal of the three existing tax classes that currently govern individual taxation:

- Tax class 1, generally applicable to single taxpayers;
- Tax class 1a, typically for widowers, pensioners, or single individuals benefiting from a child tax allowance; and
- Tax class 2, applicable to married couples and partners in civil partnerships.

A single, unified tax class will be introduced for all taxpayers and will become mandatory as from 2028. In practice, this means that individuals will be taxed separately under the same progressive tax scale, regardless of their personal circumstances or family situation.

Given this significant shift in philosophy, a transitional regime lasting 25 years will be implemented to ease the move to the new system for taxpayers who currently benefit from tax class 2. The adoption of a single tax class and tax scale may indeed result in a higher tax burden for certain taxpayers compared with the current framework.

Under the proposed reform, income will be allocated to the owner of the asset generating the revenue, unless documentary evidence demonstrates otherwise. The same principle will apply to the deduction of certain expenses. However, the draft bill provides specific exceptions, such as allowing the deduction of contributions to a voluntary pension scheme made on behalf of a spouse or partner – for example, where that spouse or partner has temporarily ceased professional activity – as special expenses. Accordingly, in limited situations, household composition will continue to influence individual taxation.

Children will also remain relevant for determining the ceilings applicable to certain tax deductions, and a new early childhood allowance of €5,400 per year will be introduced for children under three years of age. The reform further aims to enhance fairness for separated parents: increased ceilings for the deductibility of interest and special expenses will be available to each parent, corresponding to a 50% increase per child living alternately with both parents.

All changes could be summarized as follows:

	Currently	As from 2028
Tax classes	1, 1a, 2	Unique tax class (with transition period until 2052 for current tax class 2)
Joint taxation based on partnership	Request via joint tax return N+1	Unchanged but upon request
Tax allowance for children not being part of the household	€ 5,424	€ 5,928
Extraordinary charges	Normal charge computed on the taxable income up to € 60,000	Normal charge computed on the taxable income up to € 105,000
Single parent tax credit (CIM)	€ 3,504	€ 4,008
Tax allowance for children under 3 years old	non-applicable	€ 5,400
Special expenses deduction ceiling	€ 672	€ 900
Home savings scheme deduction ceiling	€ 1,344/€ 672	€ 1,500/€ 900
Tax allowance for household employees childcare, home assistance of disabled individuals	€ 5,400	€ 6,000
Widowers and divorced taxpayers	Application of tax class 2 three years following the year of the event	Application of the transitory regime five years following the year of the event

A change of perspective

The reform introduces a fundamental shift in approach, placing the emphasis on taxing individuals as standalone taxpayers, without regard to household composition.

Several arguments have been advanced to support this reform. In particular, the Luxembourg government refers to a study suggesting that Luxembourg is among the few countries that still apply collective taxation⁽¹⁾. However, caution is warranted before draw-

Country	Tax unit	Tax relief	Country	Tax unit	Tax relief
Austria	Mixed		Japan	Mixed	
Belgium	Household		Korea	Mixed	
Canada	Mixed		Latvia	Mixed	
Chile	Mixed		Luxembourg	Joint	Mixed
Colombia	Mixed		Netherlands		Mixed
Costa Rica	Mixed		Norway		Mixed
Czechia	Mixed		Poland	Joint	Household
Denmark	Mixed		Portugal	Optional	Mixed
Estonia	Mixed		Slovak Republic		Mixed
France	Joint		Slovenia		Mixed
Germany	Optional		Spain	Optional	Mixed
Greece	Individual		Switzerland	Joint	Household
Iceland	Mixed		UK		Mixed
Ireland	Optional		USA	Optional	Household
Italy	Mixed				

*Note: For the column “Tax unit”, “Joint” refers to countries where couples are assessed jointly. For the column “Tax relief”, “Mixed” indicates that at least some reliefs are computed at the household level or are only attributed to one of the two members of the couple, and “Household” indicates that all reliefs are computed jointly at the household level. This classification of tax systems focuses on how personal income taxes are computed. In Greece, couples file their returns jointly but the respective spouses’ tax liabilities are computed on individual earnings. Source: OECD Table 2.A.1

ing such a conclusion solely from the existence of the mandatory joint filing for couples only. The same study⁽²⁾ indicates that the majority of countries⁽³⁾ take household composition and personal circumstances – such as marital status, children and/or the existence of civil partnership – into account, whether through collective taxation, optional joint taxation, or targeted tax reliefs, as illustrated in the table above.

Taxation should, above all, reflect the taxpayer’s ability to pay. Fully disregarding household composition would therefore be difficult to reconcile with this overarching principle, which lies at the heart of progressive income tax systems. It is nevertheless reassuring that the reform is not purely doctrinal, as personal circumstances will continue to be reflected – albeit to a more limited extent – within the individual taxation framework.

The reform by numbers

Nevertheless, although the reform is presented as beneficial for most taxpayers, it appears that the primary beneficiaries will be single individuals, namely those currently taxed under tax class 1. The aforementioned OECD study had already highlighted that, in Luxembourg, the income tax burden for single taxpayers, when compared with married couples (particularly those with children), was among the least favorable relative to the countries included in the study.

The table below illustrates the expected tax savings (-) or increase (+) resulting from the reform, depending on the current applicable tax class and for annual taxable income ranging from € 50,000 to € 200,000.

	Tax class 1	Tax class 1a	Tax class 2		
			50%	75%	100%
50,000	-33.10%	-1.20%	-100%	-38.90%	+103.6%
75,000	-13.80%	-0.20%	-59%	+2.3%	+104.1%
100,000	-8.80%	-0.10%	-33.10%	-0.10%	+66.3%
125,000	-6.40%	-0.10%	-19.40%	-7.40%	+41%
150,000	-5.10%	-0.10%	-13.80%	-9.60%	+30%
175,000	-4.10%	-0.10%	-10.80%	-9.40%	+24.3%
200,000	-3.50%	-0.10%	-8.80%	-8.20%	+21.2%

As illustrated above, the impact of the reform on taxpayers currently subject to tax class 2 is far from uniform. The table demonstrates that the outcome varies significantly depending on the second earner’s contribution to household income (ranging from 0% to 50%). While the transition to individual taxation may prove advantageous for spouses or partners with comparable earnings, the opposite holds true for single-earner households, or where the second earner contributes less than 25% of total taxable income.

It could be argued that spouses and partners who might otherwise face a higher tax burden under the reform will, in practice, remain unaffected due to the

25-year transitional regime. From this perspective, the reform could be viewed as, at worst, neutral and potentially even beneficial. However, such a conclusion would be overly simplistic. The decision between opting for individual taxation and relying on the transitional regime may carry significant long-term financial implications in certain circumstances, including:

- Irrevocability of the individual taxation option. Spouses or partners with currently balanced income levels may elect individual taxation as from 2028. Compared with the existing system, they could achieve annual tax savings estimated at between 8% and 33% for taxable income ranging from € 100,000 to € 200,000. However, this option is irrevocable. Should one partner subsequently receive a significant promotion, experience a substantial salary increase, or temporarily cease professional activity – for example due to illness or childcare – the household could ultimately face a higher tax burden than under the current framework, without the possibility of reverting to the transitional regime.
- Potential loss of the transitional regime in an international context. Conversely, spouses or partners who choose to remain within the 25-year transitional regime may forfeit this benefit if they relocate abroad for several years at the request of their employer or to pursue an international career opportunity. The draft bill does not currently provide for mechanisms allowing taxpayers to retain access to the regime in specific situations, such as returning to Luxembourg following a foreign assignment.

This underscores the importance for households currently benefiting from tax class 2 to carefully assess their circumstances before electing individual taxation. In particular, consideration should be given to expected income trajectories, as well as to one’s stage of career, for example, whether at an early professional stage or approaching retirement, as these factors may materially influence the long-term outcome of such a decision.

Although the draft bill is only at the outset of the legislative process and the reform is not expected to take effect before 2028, it is essential to monitor its development closely. Doing so will enable taxpayers to properly evaluate and anticipate the choices they may face, in light of the potentially significant impact on their personal financial situation.

1) One of the five out of 38 countries, see OECD (2024), Taxing Wages 2024: Tax and gender through the lens of the Second Earner, Annex Table 2.A.1, p.66, OECD Publishing, Paris.
2) See same Annex Table. See also, « Trois idées fausses (ou presque) à propos du projet de déconjugalisation de l’impôt sur le revenu », Michel-Edouard Ruben, Est-il venu le temps de fiscalement rompre ? Réflexions sur le maintien de l’imposition collective et éclairage sur les écarts de revenus au sein des couples, IDEA, 2025, p.83
3) 10 countries have in fact joint filings if we also consider the option to do so and 29 countries impact the tax reliefs with the composition of the household.