

# International Assignment Services Taxation of International Assignees

## Luxembourg



# Country: Luxembourg

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## Introduction: International assignees working in Luxembourg

This folio was prepared by PricewaterhouseCoopers to provide expatriates coming to work in Luxembourg with a general background to Luxembourg tax law and other relevant issues. It reflects tax law and practice as of March 2009.

This folio is intended to help international assignees understand the reasons for the action they have been advised to take. It does not purport to be a comprehensive guide. More detailed advice should be sought before any specific decisions are taken.

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## Step 1: Understanding basic principles

### The scope of taxation in Luxembourg

- 1 An international assignee sent to work in Luxembourg will become liable to Luxembourg income tax. Other taxes which may be relevant are capital gains tax levied on certain disposals of assets (as a component of income tax), property tax and gift and inheritance taxes.
- 2 Luxembourg resident individuals are subject to personal income tax on their worldwide income. Taxation on a progressive scale is applied to successive portions of net taxable income. For 2009, rates vary between 0% and 38.95% (including the 2.5% contribution to the unemployment fund). Non-resident individuals are subject to Luxembourg tax on income from Luxembourg sources.
- 3 Moreover a social contribution called 'contribution dependance' applies to professional and replacement income ("revenu de remplacement") as well as to patrimony income ("revenus du patrimoine").
- 4 In principle, all individuals subject to the Luxembourg social security scheme will be liable to the dependency contribution on their professional and replacement incomes. The contribution amounts to 1.4% and is assessed on the monthly gross salary, decreased by sum of EUR 420.69 as from 1st March 2009. Contrary to regular Luxembourg social security contributions, no maximum income cap applies with respect to the income on the basis of which the dependency contribution is computed, nor is it deductible from the taxable basis.
- 5 The contribution also applies on patrimony income of Luxembourg residents, corresponding to 1.4% of the net taxable amount.

### The tax year

- 6 The Luxembourg tax year runs from January 1 to December 31. Salary, wages, and benefits-in-kind are taxed in the year in which the payment or benefit is actually received.

### Methods of calculating tax

- 7 Personal income tax is calculated by determining the taxable basis and assessing the tax due on that basis.
- 8 For determining the taxable basis, compulsory social security contributions paid in accordance with the Luxembourg social security scheme or in accordance with a foreign legal compulsory scheme of a country having signed bilateral or multilateral social security agreement with Luxembourg, are fully deductible. Specific rules apply for the deductibility of life insurance premiums, employees' group insurance premiums and other similar private pension contributions.
- 9 Professional expenses can be deducted either on an actual basis or on a lump-sum basis of EUR 540 per year. Commuting expenses from home to the place of work are deductible ranging from EUR 396 to EUR 2,970 per year depending on the distance traveled.

### Husband and wife

- 10 The income of husband and wife is, in principle, combined in determining the basis of taxation, but there is a tax rebate of EUR 4,500 for couples who are taxed jointly and who both derive professional income taxable in

Luxembourg. Tax bands have been laid down by parliament, so that a couple shall not pay anymore income tax while married than as separate single persons earning 50% of their household income.

### Residence and customary place of abode

11 Under Luxembourg law, the place of tax residence is governed by a number of criteria.

12 To be resident is defined as having access to and making effective use of a dwelling in Luxembourg or as being present in Luxembourg during more than six months (e.g., from October 1 to April 15, even with three weeks of Christmas holidays in the home country).

13 A taxpayer may qualify as resident for tax purposes in Luxembourg and in another state as well. In such a case, a solution to avoid double taxation can be found in one of the various tax treaties currently in force between Luxembourg and other states. Most of these treaties consider the following issues to be relevant in determining the place of residence:

- Permanent home;
- Center of vital interests;
- Habitual abode; and
- Nationality.

14 In cases where there is no treaty in force with the other state, internal provisions enable taxpayers to reduce the consequences of double taxation.

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## Step 2: Understanding the Luxembourg tax system

### General principles

15 The computation of taxable income takes into account items of income originating from:

- Trade or business;
- Agriculture and forestry operations;
- Independent professions;
- Employment income (salaried activities);
- Portfolio income;
- Annuities and pensions;
- Rental income and royalties;
- Other miscellaneous income.

Any receipts that do not fall within these categories are not taxable (e.g., lottery winnings).

16 Taxable income is based on payments received during a calendar year reduced by expenses relating to obtaining such income for the same period. A loss in one category of income can be offset against other income received in the same calendar year (unless exception provided specifically by the law, e.g. portfolio income).

17 The total net income in these categories represents the adjusted gross income, which may be further reduced by lump-sum deductions or, within limits, by actual payments for private expenses relating to the welfare of the taxpayer and his/her family or certain extraordinary expenses, so as to determine the taxpayer's taxable income.

### Taxation of salaries

18 Income from employment includes, in particular, salaries, wages, bonuses, stand-by payments, travel and lodging allowances, and unemployment benefits, unless they are exempt from tax for some specific reason.

19 Employment income also includes the emoluments of directors and other persons occupying similar functions in public, private, or cooperative companies, or a number of other organizations subject to corporation tax, to the extent that such income is paid in respect of the day-to-day management of such companies or organizations.

20 A minimum fixed deduction for relevant expenses is allowed in this category of income, amounting to EUR 540 per year. In case of a professional activity in Luxembourg for only part of the year, this fixed amount is reduced to EUR 45 per month. This minimum deduction does not limit the deduction of actual professional expenses in any way.

21 The deemed benefit-in-kind resulting from the provision of housing or a company car by the employer is calculated by a specific method of valuation laid down by administrative memorandum.

22 For free accommodation provided by the employer, the tax regime varies depending on whether the employer rents or owns the accommodation in question:

- Where the accommodation is rented by the employer, the amount of the rent is in principle deemed to represent the taxable value of the benefit-in-kind. Provided specific conditions are met, the taxable fringe benefit can be determined on the basis of the unitary value of the house with a minimum amounting to 75% of the rent paid by the employer. If the employer makes available to his/her employee the furniture contained in the accommodation, the value of the benefit as explained above is increased by 10%. Any rental charges (e.g., water and electricity) paid by the employer continue to be a fully taxable benefit in the hands of the employee;
- Where the accommodation is owned by the employer, the basis is the rental value of similar accommodation. However, since it is difficult to determine such a value, the value of the benefit can be determined by reference to the 'unitary value' of the house, with a minimum potential rent that must be taken into consideration (EUR 8.92/ sqm for flats and EUR 7.43/sq m for other dwellings, excluding garages, attics, and cellars).

23 The taxable private use of a company car is determined on the basis of the effective cost price of the use thereof. It is therefore necessary to determine the cost per kilometer and multiply this figure with the total private mileage, evidenced by means of a logbook detailing the distances traveled by the user for either private or professional purposes.

24 To simplify the determination of this value, however, the authorities have issued an administrative letter allowing one to use, under certain conditions, a value corresponding to a monthly percentage of 1.5% of the total purchase price of the new car (including VAT and options) decreased by any commercial rebate obtained by the employer.

25 An additional deduction is available for commuting expenses between home and place of work by whatever means of transport used by the taxpayer.

26 This deduction is calculated annually at EUR 99 per travel unit, representing the straight-line distance in kilometers between the town halls of the municipalities of residence and the place of work. The minimum deduction is four travel units, equivalent to an annual amount of EUR 396 and the maximum deduction is 30 travel units, corresponding to an annual amount of EUR 2,970 (for a tax period of less than one year the minimum deduction is EUR 33 per month and EUR 1.32 per day).

27 If there is a change in the distance between home and workplace during the tax year, the change will be considered to have taken place from the beginning of the month in which the change occurs. If the change is unfavorable to the taxpayer, the change will not be taken into consideration during the current year.

28 Special expenses can be deducted either for the legal lump-sum basis of EUR 480 per annum, or on the actual basis, which can be determined as follows:

- Interest paid other than mortgage interest (with no economic connection to exempt income) can be deducted up to EUR 672 per annum (increased by the same amount for jointly taxable spouses and each dependent child);
- Under certain conditions, premiums paid for civil liability, life or death insurance, or for illness or incapacity to work, where paid to insurance companies agreed in Luxembourg or in another EC Member State, are tax-deductible up to EUR 672 per annum (increased by the same amount for jointly taxable spouses and each dependent child);
- Where a single premium is paid for death insurance linked to the reimbursement of a housing loan, the above mentioned limit is increased by the maximum amount of EUR 3,000 plus EUR 672 per dependent child. Provided the taxpayer is over 30 at the time the death insurance policy is taken up, the sum of the above mentioned amounts is further increased by 8% per year over the age of 30, with a maximum of 60% of the aforementioned deduction;

- Under certain conditions, premiums paid for a qualifying pension insurance policy are tax-deductible from EUR 1,500 to EUR 3,200 depending on the subscriber's age at the beginning of the tax year. In the case where both spouses have underwritten a qualifying insurance scheme, both are entitled to the tax deduction;
- Contributions to qualifying home ownership savings plans are tax-deductible (under certain conditions) up to EUR 672 (increased by the same amount for jointly taxable spouses and each dependent child).

The deduction of the above mentioned actual expenses does not apply to non-residents, except if they opt to be treated as Luxembourg tax residents.

In addition, the below actual expense both apply to Luxembourg residents and non-residents:

- Employee's contributions to a qualifying employer provided pension plan are tax deductible up to a limit of EUR 1,200 per year.

29 Compulsory contributions to the Luxembourg or to a foreign social security system referred to by a bilateral or multilateral social security agreement are fully deductible.

30 Upon request, the authorities will allow a reduction of the taxable income for extraordinary expenses that are unavoidable and represent a certain percentage of the taxpayer's income. Examples of such extraordinary expense are cash support for needy parents, medical costs not covered by social security, etc.

31 Extraordinary expenses also include various kinds of allowances. The main allowance provided for is the tax rebate for the cost of domestic help or for the costs of child-care amounting to EUR 3,600 per annum.

32 The taxpayer may also claim a tax rebate limited to an annual amount of EUR 3,480 (for each child) for extraordinary charges in respect of the child who is not part of the household and is younger than 21 years at the beginning of the tax year. This allowance is conditional on the child being principally supported and educated by the taxpayer.

33 For children older than 21, it is still possible, on request, to obtain a tax rebate intended to compensate for the expense of full-time professional education extending over more than one year. The expenses must be principally borne by the taxpayer (defined as participation of more than 50% in the costs of education and maintenance). The rebate may not exceed EUR 3,480 per annum. If the child has his/her own income, the deduction can be refused.

34 A single taxpayer with one or more children at his/her charge can, on request, obtain a "single parent" tax credit. This tax credit amounts to EUR 750 per annum (or EUR 62.50 per month, where the tax assessment covers less than a full year). Where the children in question benefit from allowances (other than orphan's allowances) which exceed EUR 1,920 per annum (or EUR 160 per month, where the tax assessment covers less than a full year), 50% of such excess has to be deducted from the tax credit of EUR 750 in order to obtain the effective tax credit.

35 Employees are entitled to a EUR 300 tax credit on a yearly basis (applicable to each married spouse deriving a taxable salaried income). This deduction amounts to EUR 25 per month, where the tax assessment does not cover the entire year.

36 If both spouses (jointly taxed) realize so-called 'professional earnings' they benefit from an 'extra-professional' rebate up to EUR 4,500 (or EUR 375 per month).

### Self-employment

37 In principle, profits arising from self-employed activity carried out in Luxembourg are subject to tax without considering the place of residence. The activities of directors, "commissaries" (auditors), and equivalent mandates are taxed as self-employed income.

## Taxation of investment income

38 Investment income includes dividends, profits, and other proceeds, in whatever form, derived from investments in shares, stock, profit-participating shares, or other participation of all kinds in companies, as well as all interest on debt.

39 Generally, dividends arising from Luxembourg sources are subject to a withholding tax of 15%; however, no withholding tax is levied on dividends paid by holding companies or investment funds.

40 Interest paid or attributed to Luxembourg resident individuals by a paying agent located in Luxembourg are subject to a 10% withholding tax which is in full discharge in the hands of the taxpayer. As from January 1, 2009, Luxembourg resident individuals deriving interest income paid by a paying agent located in an entitled country<sup>1</sup> may opt for a final 10% taxation (i.e. which is in full discharge in the hands of the taxpayer). Interest income not falling within the scope of the 10% taxation (e.g. interest income less than EUR 250 per year and per paying agent or income received from an UCIT) is only subject to a final taxation according to progressive income tax rates.

41 Dividends and interest received are part of the worldwide taxable income of Luxembourg residents, whether received from Luxembourg sources or not.

42 However, the first EUR 1,500 (or EUR 3,000 for married couples who are taxed jointly) is tax-exempt. This exemption applies on total dividend and interest (subject to final taxation) income received during the tax year. Where dividends are paid by a Luxembourg resident or a EU resident company, or a company based in a State that has signed a double tax treaty with Luxembourg and that is fully liable to corporate tax, 50% of the aforementioned dividend income is tax-exempt. Foreign interest<sup>2</sup> and dividends collected abroad by Luxembourg residents must be declared in the annual tax return. Taxes paid abroad on such income can, in principle, be credited against Luxembourg income tax. The amount effectively to be taken into consideration is determined by way of a rather complex computation. Foreign taxes which cannot be credited are generally tax deductible.

43 The fixed deduction for this category of income is EUR 25 (EUR 50 for married couples who are taxed jointly where both spouses benefit from portfolio income) or EUR 2 per month if the tax assessment relates to less than a full year. Actual related expenditure, properly documented, can be substituted if this is greater.

## Taxation of rental income

44 Taxable income corresponds to the rent received less some deductions provided by the Luxembourg Income Tax Law.

45 The rental value of a dwelling occupied by its owner is taxable and is determined in relation to the unitary value.

46 The rental value of the occupier's principal dwelling can be reduced by any interest on a loan used to acquire the property or in building an extension.

47 The ceiling for deduction of this interest is laid down by grand-ducal regulation. For the first year and following 5 years of occupying the house, the deduction is fixed at EUR 1,500 per annum per member of the family. It falls to EUR 1,125 for the next five years, then to EUR 750 for those that follow.

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<sup>1</sup> Member state of the European Union other than Luxembourg, or a Member State of the European Economic Area (i.e. Iceland, Liechtenstein and Norway), or in a state which has concluded an agreement with Luxembourg introducing measures equivalent to those of the European Saving Directive 2003/48/CE.

<sup>2</sup> For which the option for the final 10% tax rate has not been claimed.

## Capital gains

48 Capital gains derived from the disposal of movable properties are subject to Luxembourg progressive income tax rate (0 - 38.95%) provided that the holding period does not exceed 6 months and to the extent that the total capital gains exceed EUR 500.

49 If movable properties are disposed of more than 6 months following their acquisition, capital gains are not taxed unless the individual holds an "important participation". A participation is defined as important when the individual taxpayer (together with his household) holds or has held, directly or indirectly, more than 10% of the corporate capital over the 5 years prior to the date on which the movable properties are disposed of.. Such capital gains are taxed as extraordinary income at half of the average combined tax rate (max. 19.475%). The taxable value corresponds to the difference between the acquisition price (with a factor of indexation) and the proceeds of disposal (the first EUR 50,000 of cumulative capital gains (doubled for jointly taxable married taxpayers) are exempt from tax).

50 Miscellaneous income also includes the profit resulting from the total or partial liquidation of the assets of a resident company for the account of a shareholder owning an important participation. Instances of conversion, merger, absorption, de-merger or acquisition of the status of a holding company can be placed on the same footing as liquidation for the purposes of this provision.

51 Such capital gains are taxed as extraordinary income and are calculated on the difference between the acquisition price (with a factor of indexation) and the proceeds of disposal.

52 Capital gain on the sale of the house or apartment occupied by the taxpayer as his/her principal residence is exempt from tax. The capital gain on other real estate property:

- Is subject to progressive income tax rates if disposal takes place within 2 years of acquisition.
- Is subject to a reduced tax rate of 19.475% if disposal takes place more than 2 years after acquisition.
- Is exempted if the buyer is the State, a Luxembourg City or an association of cities (under certain conditions).

53 Capital gains on the disposal of land and building may be deferred under certain conditions if the proceeds are reinvested in eligible assets.

54 Above that, the first EUR 50,000 (doubled for jointly taxable married taxpayers) of cumulative capital gains realized over a 10-year period on the sale of immovable property (disposal more than 2 years after acquisition), is exempt from tax. This allowance is only available every ten years (unused deductions can be carried forward for a ten-year period).

55 In addition, in case of a capital gain on a building acquired through direct inheritance, an additional allowance of up to EUR 75,000 may be granted under specific conditions.

## Extraordinary income

56 Tax rebate is given for items of extraordinary income. Thus, reduced tax rates are available. The computation of the reduction varies depending on the income category.

## Double tax treaties

57 Double tax treaties between the Grand Duchy of Luxembourg and other territories are generally based on the OECD standard, with few modifications.

58 In each particular case the relevant treaty should be consulted; the following explanations should be considered only as a guide.

59 The standard treaty concerns only residents of one of the contracting states. The taxes which exist in Luxembourg are national and local in relation to both income and wealth.

60 The standard rules are as follows:

- Business profits are taxed in the country of residence except those arising from a permanent establishment located in the other country;
- Capital gains on the disposal of property are taxable in the country where the property is situated. The disposal of other assets relating to a regular business is chargeable in the country where the business is situated. All other capital gains are chargeable in the country of residence of the person disposing of the asset;
- Except for a limited level of withholding tax, interest and dividends are chargeable in the country where the recipient is resident. The recommended rates are 5% for a shareholding of 25% or more held by a limited company and 15% for other interest;
- Income from employment can be taxable in the country of residence or the country of employment - generally depending on certain conditions.

### Social security

61 In principle, all employees working in Luxembourg are subject to social security, which covers sickness and maternity insurance, pension, industrial accidents or professional health risks, family allowances, and unemployment benefits.

62 Social security contributions paid by employees are retained at source and paid over by employers to the mutual insurance organization responsible for administering the social security system. Self-employed persons make regular payments to similar organizations.

63 Contributions are applied to wages, salaries, and professional earnings subject to a yearly ceiling estimated at EUR 100,555.26 for sickness, accident, pension and family allowances (as on March 1, 2009). As from 2009, the "single status" (or "statut unique") has been introduced for blue and white-collar workers. The current rates of contribution are 10.95% for the employees and from 11.83% to 19.27% for the employer (depending on the sector of activity) calculated on the gross salary.

64 Regular social security contributions by employees are fully deductible for personal income tax purposes. In addition to the above-mentioned regular social security contributions, employees are subject to a dependency contribution ("contribution dependance") that is assessed on the gross remuneration, decreased by EUR 5,027.76 per year (for the year 2009,) or EUR 420.69 per month as from 1st March 2009. This contribution amounts to 1.4%. Contrary to regular social security contributions, the dependency contribution is assessed on a basis that is not capped and it is not tax deductible.

65 Under EC Regulation 1408/71, an EU national (or a national of a third country provided he is legally resident on the territory of a Member State) may remain subject to the social security regime of his/her home country, provided the duration of his/her transfer does not exceed 12 months (based on E101 form).

66 This period can be extended for one further year, upon application of form E 102. In certain cases, a special agreement may be obtained from the social security authorities of both countries to keep the EU National (or the national of a third country provided he is legally resident on the territory of a Member State) under his/her home country system from the outset for a maximum period of five years.

67 Nationals of EU member states (or nationals of third countries provided they are legally resident on the territory of a Member State) who work both in their home country and in Luxembourg will normally remain subject to the social security system of their country of residence.

68 Totalization agreements also exist with several non-EU countries, such as USA, Canada, etc.

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## Step 3: What to do before you arrive in Luxembourg

### Work permits

69 Nationals of EU States are able to enter Luxembourg and have free access to the Luxembourg employment market. With regard to nationals of the new European Union Member States (Bulgaria and Romania) Luxembourg decided to limit for a transitional period the access of nationals of these new Member States to the Luxembourg job market. In order to work in Luxembourg it is necessary for them to previously obtain a work permit. This exception to the principle of freedom of movement for workers applies as from January 2007 until a maximum period of 7 years.

70 Under EEC Regulation no. 1612/68, nationals of a member country of the European Community or a member country of the European Economic Area are not required to obtain a work permit in order to look for employment in Luxembourg.

71 Nationals of states outside the EU are required to be in possession of an identity card or a valid passport when entering a state of the Schengen area. In order to work in Luxembourg it is necessary for them to previously obtain a work permit. Until very recently, granting or denying a work permit was within the purview of the Ministry for Labor. Further to the new distribution of Ministries, this is now part of the remit of the Immigration Service (Direction de l'immigration), which reports to the Foreign Office. In practice, the file will still be sent to the Employment Service, which will then forward it to the relevant committee.

72 No work permit is needed for self-employed individuals but they have to request a business license.

### Employment contracts

73 Workers seconded to Luxembourg by their foreign employer should check whether their employment contract is amended to reflect the terms and conditions of their secondment.

### Remuneration packages

74 Compensation received other than salary in cash, because of expatriation is likely to be taxable; however, some expenses such as removal costs can be allowed as deductible expenses.

### 13th month

75 This remuneration is not compulsory in Luxembourg. If paid, it qualifies as a non-periodic remuneration and is subject to a special withholding tax scale.

### Bonuses

76 In principle, bonuses are taxed as non-periodic remuneration.

### Overtime

77 As from 2009, overtime is tax exempted for the employees within the scope of the "single status" and not subject to social security contributions<sup>3</sup>.

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<sup>3</sup> Except for the base remuneration which is subject to the sickness insurance contribution of 2.95% for the employee within the scope of the "single status".

### Luncheon vouchers

78 For this 'benefit-in-kind' a grand-ducal decree grants a fiscal advantage, as only a small part of the benefit is taxable (EUR 2.80 for luncheon vouchers up to EUR 8.40, the difference between EUR 8.40 and EUR 2.80 being fully exempted).

### Company car

79 The basic principle for calculating the taxable value of the benefit is that a logbook must be kept, detailing private and business use (per number of kilometer traveled) and the calculation of the cost price per kilometer of the car. However, it is also acceptable for a lump-sum evaluation of the taxable value of the private use of the car to be made on the basis of 1.5% per month of the total purchase price of the new car (including options and VAT) decreased by any commercial rebate obtained by the employer.

### Rent

80 Where the company accommodation is rented by the employer, in principle, the amount of the rent paid by the employer must be regarded as being the value of the benefit. However, if certain conditions are met, the taxable fringe benefit can be determined on the basis of the unitary value of the house with a minimum amounting to 75% of the rent paid by the employer. On the other hand, where the company accommodation belongs to the employer, a comparable market rent has to be taken into consideration. If such value cannot be ascertained, the monthly fringe benefit is deemed to be 25% of the unitary value of the accommodation. However, this value may not be lower than a reference rental value (EUR 8.92/sq m for bed-sits and flats, EUR 7.43/sq m for other dwellings, excluding garages, cellars and attics).

### Pension plan

81 The legislation on occupational pension plans came into force on January 1, 2000. The law provides for a tax charge upon entry on the endowments and contributions paid by the employer, i.e., during the period of funding. Taxation will occur by means of a 20% withholding tax borne by the employer. This tax at source is in full discharge of personal income tax. The employee's personal contributions retained from his/her salary are deductible as special expenses up to a limit of EUR 1,200 a year. The benefits paid out of an occupational pension scheme as of January 1, 2009 are subject to the 1.4% dependency contribution. These benefits are however exempt from Luxembourg taxation (as far as Luxembourg residents are concerned).

### Medical care

82 In general, the obligatory Luxembourg health insurance scheme reimburses most of the current medical costs of an employee and his/her family. Supplementary insurance is available. The coverage is considered as above average compared to bordering countries.

### Foreign service premium

83 This premium is paid in order to attract foreign employees to Luxembourg. It is part of a regular salary and in principle taxable.

### Tax assistance

84 It is common for an employer's tax adviser to assist foreign employees with their tax affairs. Any official charge paid by an employer for an employee is, in principle, liable to tax.

### Tax equalization

85 If the package contains a net payment to protect net salary differences arising from the employment in Luxembourg, it forms a taxable benefit-in-kind.

### Stock options

86 Share incentives such as stock options are increasingly used. There are no specific rules concerning the taxation of this form of remuneration. The Luxembourg tax authorities issued a circular letter in January 2002 about the taxation of stock options plans. This circular letter is based on the general principles of Luxembourg income tax legislation (hereafter referred to as "LITL"). Benefits derived from stock option plan are in principle taxable at exercise on the spread (shares' market value – strike price). Taxation at grant (i.e. on the value of the options) applies to the extent that options granted are unconditional and freely tradable. The options are valued based on a lump-sum method (7.5% of the underlying shares) or based on a recognized financial method (such as Black and Scholes). However, this tax treatment is likely to be amended by the Luxembourg tax authorities.

### Removal costs

87 The reimbursement of removal costs in and out of Luxembourg by an employer is exempt from tax in the hands of the employee, within certain limits, if appropriate documentation is available.

### School fees

88 School fees are frequently paid by employers on behalf of their foreign employees' children following special courses of education in Luxembourg, due to language differences. As such they are generally taxable in the hands of the employee.

### Trips back home

89 Trips back home for private purposes are, in principle, to be regarded as a taxable fringe benefit when paid for by the employer.

### Importing personal possessions

90 Full exemption from value-added tax (VAT) and/or custom duties is generally granted when personal possessions (including a car - provided that the car has been in the possession of the individual for at least 6 months) are imported by a private European individual transferring his/her normal place of residence from another country to Luxembourg. For non-European individuals, this rule applies only to the extent that these personal possessions have been in held by the individual for at least 6 months.

91 A request must be filed with the local customs office before or when goods are imported (except for EU nationals). A list of the possessions being imported is required together with a tax-free certificate for import.

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## Step 4: What to do when you arrive in Luxembourg

### Establishing residence in Luxembourg

92 It is necessary to distinguish between EU-nationals and non-EU nationals.

93 EU-nationals who stay for longer than three months in Luxembourg receive authority to stay by virtue of a residence permit for nationals of a Member State of the European Union (with regard to nationals of the new European Union Member States, a residence permit will be delivered should conditions for a notification of entry are fulfilled -please see note 70). The application for a residence permit should be submitted to the local authority requiring notification of the person's arrival. Even if they intend to stay for less than three months, they must, in principle, submit a notification of entry to the local authority.

94 An international assignee intending to reside and work in Luxembourg must register with the municipality in which he/she will reside as soon as accommodation is rented or purchased. A residence permit will be issued.

95 Non-EU nationals can only enter on production of a valid passport plus a visa, if required. Even if they intend to stay for less than three months, they have to submit a notification of entry to the local authority. Registration in the registers required by law to be kept by hoteliers is sufficient proof, provided that the visitor remains no longer than three months and exercises no gainful activity. If a non-EU national wishes to stay for more than three months, he/she has to apply for an alien's identity card ("titre de séjour").

96 A non-resident has to submit a formal request to the 'Bureau RTS non-residents' with the tax authorities; from the first day he/she starts work in order to be granted a tax card.

### Claiming allowances and reliefs

97 By using the tax card received early each calendar year, an immediate claim can be made for a deduction of:

- a) Expenses relating to the exercise of the business activity (unless they exceed EUR 540);
- b) Commuting expenses, home and work place (minimum EUR 396 per annum and maximum EUR 2,970 per annum);
- c) Special expenses (see paragraphs 28-29);
- d) Extraordinary charges (see paragraphs 30-33); and
- e) Miscellaneous tax rebates (see paragraphs 34-35). Such deductions apply immediately to the withholding tax applied to salary.

### Withholding taxes

98 Taxable employment income in Luxembourg is generally subject to withholding tax. This tax is compulsory and has to be deducted from salary by the Luxembourg employer. In the case of a tax assessment (upon filing of a tax return), the withholding tax deducted at source will be credited against the total tax due.

99 Dividends, interest on profit-participating loans and directors' fees are subject to withholding tax in the same way as salary. As regards the withholding tax on interest, please refer also to paragraph 40.

100 The general withholding tax rate for dividends and interest on profit-participating loans is 15%.

101 Directors' fees paid to directors are subject to a withholding tax of 20% on the gross amount. The withholding tax is considered as an advance payment of the individual income tax due and may thus be offset against the final income tax liability.

102 Luxembourg nonresident directors are not liable to file an income tax return provided that the total amount of their gross directors' fees taxable in Luxembourg does not exceed EUR 100,000 and that they do not have any other income from Luxembourg source. They can, however, opt to be taxed through the filing of an individual tax return and be subject to progressive income tax rate (min. 15.375% for non-residents) to claim professional income expenses and special expenses.

The 20% tax withheld can then be credited against the tax determined on the basis of the tax return.

Whether the filing of a tax return is advantageous needs to be verified on a case-by-case basis.

### Tax assessment

103 Persons who are resident in Luxembourg for the entire year are entitled to make a regularization of withholding tax paid in respect of their employment income that has been subject to withholding tax compared to final tax computed on the basis of his/her employment income. Individuals who were non-resident for the whole year and who have been working as employees for a non-interrupted period of at least nine months in Luxembourg, as well as individuals whose gross employment income taxable in Luxembourg amounts at least to 75% of their annual worldwide gross employment income also benefit from the regularization of withholding taxes as well as individuals who do not fulfill the conditions to submit a tax return and who did not benefit from the tax credit for single parent and/or tax bonus for dependent children.

104 Any individual resident in Luxembourg for part of a calendar year is entitled to this regularization only on the basis of the entire year's worldwide income (in order to determine the effective Luxembourg tax rate on the income taxable in Luxembourg).

105 Non-residents working in Luxembourg are not always entitled to claim full tax reliefs related to their family situation. Indeed, this will depend on the level of professional income that is taxable in Luxembourg in relation to total household professional income.

106 Non-resident taxpayers may opt to be treated as residents for tax purposes and thus benefit from the same deductions and allowances as residents, if at least 90% of their professional income is taxable in Luxembourg. In such a case, the tax rate applied to Luxembourg professional source income is determined on the basis of the taxpayer's total Luxembourg source income as well as on his household's worldwide professional and private income.

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## Step 5: What to do at the end of the year

### General

107 Luxembourg residents who have a net taxable income in excess of EUR 58,000 (EUR 100,000 as from January 1, 2009) are obliged to file a tax return with the 'Administration des Contributions Directes' by March 31st following the end of each tax year. Certain other cases are laid down by the law where the resident taxpayer must file a tax return (depending on the categories of income and the level of income).

108 An extension of time can be obtained from the tax office, which, in practice, can allow time for collecting all necessary information without the risk of interest charges on delay.

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## Step 6: What to do when you leave Luxembourg

### Reporting departure

109 You must report your departure at the office of the municipality in which you were resident.

110 Where applicable, your employer must report your departure to the social security authorities for cancellation of contribution payments to the social security authorities.

111 The tax office dealing with the tax returns should also be advised of any change of address so that tax return forms covering the final tax period in Luxembourg can be sent out for completion.

112 Normally, upon departure, the Luxembourg tax authorities require you to appoint a representative in Luxembourg in order to facilitate their mailing procedures. As taxes are frequently only assessed after certain periods, the representative is supposed to keep a track of and maintain contact with the former resident.

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## Appendix A: Overview of personal tax deductions and income tax rates

Personal tax deductions and income tax rates for the year 2009

### Personal tax exemptions

The following basic amounts of net taxable income (after all available deductions) are exempt from tax: (in EUR):

Single person	10,450
Married couple	20,800

As of 1 January 2008, dependent children are no longer considered at the tax level. Instead, a tax bonus of EUR 922.50/child/year is paid. As from 2009, this tax bonus is paid on monthly installments of EUR 76.88.

### Net taxable income

Net taxable income is determined after deduction of allowable expenses. These are:

Expenses connected with employment:

- Minimum standard deduction: EUR 540/year;
- Minimum standard deduction for commuting expenses: EUR 396/year.

Special deductions (not all being available to non-residents):

- Interest paid on consumer loans (ceiling of EUR 672/year increased by the same amount for jointly taxable spouses and each dependent child);
- Insurance premiums (ceiling of EUR 672/year increased by the same amount for jointly taxable spouses and each dependent child);
- Contributions to home ownership savings plan (ceiling of EUR 672/year increased by the same amount for jointly taxable spouses and each dependent child);
- Insurance premiums for a qualifying private pension insurance scheme (ceiling of EUR 1,500/year to EUR 3,200/year (depending on the subscriber's age)). Applicable to each spouse provided that both have contracted a private insurance policy;
- Employees' contributions to a qualifying employer-provided occupational pension scheme (ceiling of EUR 1,200/year);
- Mandatory social security contributions.

### Tax rebates

(1) Extra-professional tax rebate for a working couple (EUR 4,500/year).

(2) Extraordinary charges:

- Fully deductible for the part that exceeds a certain percentage of the taxable income;
- Allowance for child care, housekeeping, or care of individuals who are not self-sufficient (limited to EUR 3,600/year);
- Tax credit for single parent: EUR 750/year;
- Relief for children not forming part of the household (up to a maximum of EUR 3,480/year).

(3) Tax credit (EUR 300/year applicable to each spouse provided each of them earned a professional income).

Personal income tax rates

Tax rates applicable to single individuals in 2009 are as follows (in EUR):

Taxable income over	Not over	Percentage
0	11,265	0%
11,265	13,173	8%
13,173	15,081	10%
15,081	16,989	12%
16,989	18,897	14%
18,897	20,805	16%
20,805	22,713	18%
22,713	24,621	20%
24,621	26,529	22%
26,529	28,437	24%
28,437	30,345	26%
30,345	32,253	28%
32,253	34,161	30%
34,161	36,069	32%
36,069	37,977	34%
37,977	39,885	36%
39,885	and above	38%

The above-mentioned tax rates have to be increased by a 2.5% contribution to the unemployment fund. This raises the highest marginal tax rate from 38% to 38.95%.

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## Appendix B: Double-taxation agreements

Countries with which Luxembourg currently has double-taxation agreements:

Albania (1)	Indonesia	Portugal
Argentina (1)	Ireland, Rep. of	Qatar (1)
Armenia (1)	Israel	Romania
Austria	Italy	Russia
Azerbaijan (1)	Japan	San Marino
Bahrain (1)	Korea, Rep. of	Serbia & Montenegro (1)
Barbados (1)	Kazakhstan (1)	Singapore
Belgium	Kirghizstan (1)	Slovenia
Brazil	Kuwait (1)	South Africa
Bulgaria	Latvia	Rep. of Korea
Canada	Lebanon (1)	Spain
China, P.R.	Lithuania	Sweden
Cyprus (1)	Macedonia	Switzerland
Czech Republic	Malaysia	Syria (1)
Denmark	Malta	Thailand
Estonia	Mauritius	Trinidad and Tobago
Finland	Mexico	Tunisia
France	Moldavia (1)	Turkey
Germany	Mongolia	Ukraine (1)
Georgia (1)	Morocco	United Arab Emirates (1)
Greece	Netherlands	United Kingdom (1)
Hungary	Norway	United States
Hong Kong	Pakistan (1)	Uzbekistan
Iceland	Poland	Vietnam
India (1)		

(1) Treaty in course of negotiation / ratification.

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## Appendix C: Luxembourg contacts and offices

### Contacts

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