Global Employer Services (GES)

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GES NewsFlash

Luxembourg — Local and international developments in personal taxation and social security

January 11, 2013

Tax and social security changes for individuals effective 1 January 2013

Further to the enforcement of the 21 December 2012, law amending the Income Tax Law and of other legal and statutory provisions, we summarize hereafter the main changes in the area of taxation and social security that affect individuals as of 1 January 2013.

Increase of the upper tax rate

Until 31 December 2012, the upper tax rate was 39% for individuals (excluding the employment fund surcharge), and applied to income above EUR 41,793 for single taxpayers (class 1 and 1a) and above EUR 83,586 for couples taxed jointly (class 2). As of 1 January 2013, an upper tax rate of 40% is added to the income tax schedule, and applies to income above EUR 100,000 for single taxpayers (class 1 and 1a) and above EUR 200,000 for couples taxed jointly (class 2).

As of 1 January 2013, the law abolishes the current mechanism foreseeing the adaptation of the income tax schedule in case the consumer price index registers an annual variation of 3.5% or more.

Increase of the employment fund surcharge

As of 1 January 2013, the employment fund surcharge for individuals increases from 4% to 7% (for income not exceeding EUR 150,000 or EUR 300,000 for couples taxed jointly) and from 6% to 9% (for the portion of income exceeding the aforementioned ceilings). The upper marginal tax rate therefore increases from 41.34% (39% increased by 6%) to 43.60% (40% increased by 9%).

Stock options

The Luxembourg tax law distinguishes between transferable stock options that are taxable upon grant to the employee, and nontransferable or individual options that are taxable at exercise.

The taxable basis of transferable options is the difference between the stock exchange or market value of the options at the time of grant and the price paid by the employee for the option (if any). The market value of transferable unquoted options may be determined either in accordance with a recognized valuation method or based on a lump-sum valuation.

Until 31 December 2012, the lump-sum valuation was achieved by applying a fixed 7.5% coefficient to the market value of the underlying share at the time of grant. As of 1 January 2013, the coefficient is raised to 17.5%.

Reduction of the deduction for debit interest

Debt interest (except interest directly linked to an income such as for example mortgage interest) was deductible until 31 December 2012, as special expense up to an annual ceiling of EUR 672 per member of the taxpayer's household. As of 1 January 2013, this ceiling is lowered to EUR 336 per member of the taxpayer's household.

Abolition of the minimum lump-sum deduction for travel expenses

Employees benefit from a lump-sum deduction amounting to EUR 99 per kilometer, and per year for travel expenses, calculated on the distance between home and the workplace. Until 31 December 2012, employees for which the distance between home and the workplace did not exceed four kilometers benefited from a deduction of EUR 396; the deduction was further limited to EUR 2,970 (corresponding to a distance of 30 kilometers). As of 1 January 2013, the law abolishes the lump-sum deduction corresponding to the first four kilometers. The lump-sum deduction is hence abolished for taxpayers living less than five kilometers from their workplace and is limited to EUR 2,574 per year.

Low-interest or interest-free loans

The law provides a standard valuation formula to assess the benefit resulting from below-market rate or interest-free loans granted by employers to their employees. The benefit is calculated based on a reference interest rate that is reviewed on a regular basis. The rate fixed for the year 2013 and onward is 2% (same as for the year 2012).

Lump-sum wage tax rates

When a taxpayer or a married couple derives more than one employment remuneration, the remunerations that come in addition to the main one are subject to a lump-sum wage tax rate that amounted in 2012 to 12% in tax class 2, 18% in tax class 1a, and 30% in tax class 1. As of 1 January 2013, these rates are increased by 3%. For married couples where both spouses derive employment income, the additional remuneration will therefore be subject to a lump-sum wage withholding tax of 15%.

Fiscal census

For the purposes of administrative simplification, as of 1 January 2013, the law repeals the process of the annual fiscal census. This census (as of 15 October) was organized by the municipalities, and was aimed at the distribution of tax cards. Hence, tax cards are now issued directly by the tax authorities (as was already the case for nonresidents and for citizens of Luxembourg City).

Social security

With the exception of the 1.4% dependence contribution, social security contributions are capped to an income basis that amounts to five times the minimum wage. The annual cap applicable as of 1 January 2013, amounts to EUR 112,451.28.

In addition, as of 1 January 2013, blue collar workers are released from the 1% contribution to the mutual insurance. Only employers are liable to contribute to this fund as of that date. The rates of contribution range from 0.42% to 2.64%, and depend on the average rate of absenteeism of the employer.

Finally, the rate of contribution to the accident insurance due by employers is lowered as of 1 January 2013, from 1.15% to 1.10%.

People to contact

If you have any questions concerning the issues in this *GES NewsFlash*, please contact one of the Global Employer Services professionals at our Deloitte offices as follows:

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