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GES NewsFlash

Luxembourg – Local and International Developments in Personal Taxation and Social Security

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Speech on the State of the Nation – Main measures announced for individuals

Following particularly tough tripartite negotiations and a tense political climate, the Prime Minister Jean-Claude Juncker made his speech on May 5th, 2010 to the *Chambre des Députés* on the state of the nation. After emphasizing the need to implement regulations for the financial markets on a European or even worldwide level, the Prime Minister noted the persistent growth difficulties in the European Union, naming Greece and the obligation for European countries to contribute to this country's stabilization, especially in order to protect the euro currency.

The main objective of the government is to achieve a balanced budget in 2014. We hereafter summarize the measures announced for the years 2011 and 2012 in order to reach this objective and that affect more particularly individuals.

Taxation of individuals

Travel expenses. The amount of travel expenses would be reduced by half starting from 2011.

Solidarity surcharge. The current proposal is that the solidarity tax, which puts a surcharge on the income tax rates and which currently amounts to 2,5%, would be increased to 4%. This rate would be up to 6% for households with an annual taxable income exceeding 300,000 Euros.

Marginal tax rate. It is planned to raise the maximum tax rate from 38% to 39% for the bracket of income exceeding 41,799 Euros (83,598 Euros for couples taxed jointly).

Crisis tax. The government proposes to levy a temporary tax of 0.8% on every category of income; only those earning not more than the social minimum wage would be exempt. The calculation of this tax would be similar to the one of the dependence insurance (application of an allowance equivalent to the amount of the social minimum wage).

Considering these proposals, the marginal rate would be raised from the current rate of 38.95% to 41.36%, respectively 42.14% for the part of the taxable income exceeding 300,000 Euros. Overall, for incomes between 50,000 and 250,000 Euros, these measures would lead to a tax rise which would correspond to a percentage between 0.5% and 2%, depending on the level of income and family status. Taking into account an annual income of 100,000 Euros, the additional taxes due would be about 1,500 Euros for a single person and 900 Euros for a married couple.

Social benefits

Family allowances. It is proposed to abolish family allowances for children over 21 years old, except for those who would still be in a vocational education system or in secondary school. In compensation, the government plans to revise upwards scholarships and university loans.

Parental leave. The current system should stay as it is for 2011. However, a new analysis will be done in 2012 which will have as potential consequence to amend the existing regime.

Pension adjustment. It is proposed to split the adjustment initially planned for January 1st, 2011 over two years: a first band of 0.95% on January 1st, 2011 and a second band of 0.95% on January 1st, 2012.

Education allowance ("Mammerent"). The education allowance will not be abolished but it is planned to grant it to future beneficiaries over 65 years old only (instead of 60 years old at this time).

Unemployment. Unemployment benefits will stay capped at 2.5 times the social minimum wage but it is planned that the lowering to 2 times the social minimum wage would take place after 9 months instead of 6 months currently. Moreover, the possibility to extend the payment of the benefits beyond 12 months should be applicable to individuals over 45 years old; this is currently available only for people over 50 years old.

Employers

"Bankers' bonus". The government thinks that it would be expedient to implement a ceiling for bonuses and severance payments. Consequently, every payment over this ceiling would be a non-deductible expense for the company.

Accident insurance. It is proposed to implement a single rate applicable to every sector. This single rate would be 1.25%.

Salary indexation

During the tripartite negotiations, two suggestions were made: a structural approach would consist of cutting out from the basket tobacco and fuel products (starting from a certain price per barrel and excluding heating fuel). A temporary approach would recommend capping the indexation to 2 times the amount of the social minimum wage. Under the latter approach, people getting a monthly salary over 3,365 Euros would receive an extra fixed amount of 84.14 Euros per month when an automatic indexation falls. Decisions regarding this matter should be taken between now and the end of the year. The project to increase the social minimum wage on January 1st, 2011 would remain relevant.

Finally, following the latest information published by Statec, it is worth noticing that the next automatic salary indexation would take place in July 2010.

Deloitte's View

The above-mentioned measures would have to be further analyzed based on the legislation that will implement them. We will make sure to keep our readers informed of the future developments in this area.

People to Contact

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