

# FILLING YOUR TAX RETURN IN LUXEMBOURG

## PAY LESS TAX

*NEWS 2023/2024 (SOLIDARITEITSPAK 3.0) + Law of December 22, 2023*



 **Foyer** | **assura**





# Discharge

Every care has been taken in the preparation of this magazine. However, the author accepts no responsibility for information contained or omitted.

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## *Taxation of individuals*

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In Luxembourg, tax fairness is reached through

- the allocation of different tax classes,
- the application of a progressive tax scale,
- granting of an extra-professional allowance of €4,500.

The tax classes take into account the taxpayer's marital status, parental status, tax status and age, and provide 3 different approaches when determining the taxable income for the application of the tariff (scale).

The scale allows the tax burden to progress as taxable income rises.

The extra-professional allowance is granted automatically to spouses and partners who are jointly taxable and both earn professional income liable to social security contributions.

It is granted on request to spouses and partners taxed collectively, one of whom earns professional income subject to social security contributions and the other has received income from pensions or annuities for less than 36 months as at January 1 of the tax year concerned.

The searching for tax fairness and social responsibility is also confirmed by the granting of various tax deductions, such as ;

- income related expenses,
- special expenses,
- extraordinary charges.

These dispositions are complemented by a series of tax credits, such as;

- employee tax credit,
- pensioner tax credit,
- single-parent tax credit.

Temporary tax credits take account of special situations, for example;

- energy tax credit,
- conjuncture tax credit.

## ***Tax scale***

Luxembourg's income tax scale is made up of 23 brackets, allowing a slow progression of the tax burden. It will be reviewed from tax year 2024.

<b>Scale 2017</b>	<b>Scale 2024</b>	<b>Scale 2017 and 2024</b>
<b>Slices</b>	<b>Slices</b>	<b>%</b>
0- 11.265	0-12.438	0
11.265-13.137	12.438-14.508	8
13.137-15.009	14.508-16.578	9
15.009-16.881	16.578-18.648	10
16.881-18.753	18.648-20.718	11
18.753-20.625	20.718-22.788	12
20.625-22.569	22.788-24.939	14
22.569-24.513	24.939-27.090	16
24.513-26.457	27.090-29.241	18
26.457-28.401	29.241-31.392	20
28.401-30.345	31.392-33.543	22
30.345-32.289	33.543-35.694	24
32.289-34.233	35.694-37.845	26
34.233-36.177	37.845-39.996	28
36.177-38.121	39.996-42.147	30
38.121-40.065	42.147-44.298	32
40.065-42.009	44.298-46.449	34
42.009-43.953	46.449-48.600	36
43.953-45.897	48.600-50.751	38
45.897-100.002	50.751-110.403	39
100.002-150.000	110.403-165.600	40
150.000-200.004	165.600-220.788	41
> 200.004	>220.788	42

As the amounts of the various brackets have not been indexed since 2009, the agreement of the Tripartite Coordination Committee of March 3, 2023 (SOLIDARITEITSPAK 3.0) implements:

- for the 2023 tax year, a tax credit based on the adaptation of the income tax scale to inflation by 2 index brackets,
- starting in 2024, an adjustment of the income tax scale by 2.5 index brackets. The lay of December 22, 2023 brings this adaptation to 4 index brackets.

# Tax classes

## *Difference between the 3 tax classes*

- Tax class 1 is taxed according to the progressive scale.
- Tax class 1a is taxed according to the progressive scale, but taxable income benefits from a tax free amount.
- In tax class 2, taxable income is divided by two (splitting), so that each half of taxable income benefits from the progressive scale.

## *Allocation of tax classes :*

<b>Status</b>	<b>without children</b>	<b>with child(ren)</b>	<b>&gt;64 years</b>
Single	1	1a	1a
Divorced < 3 years	2	2	2
Divorced < 3 years	1	1a	1a
Separated < 3 years	2	2	2
Separated > 3 years	1	1a	1a
Widowed < 3 years	2	2	2
Widowed > 3 years	1a	1a	1a
Married resident - collective taxation	2	2	2
Married resident – single taxation	Pure individual or individual with income reallocation	Pure individual or individual with income reallocation	Pure individual or individual with income reallocation
Married non-resident without assimilation	1	1	1
Married non-resident with assimilation to resident in collective taxation	Average worldwide tax rate class 2	Average worldwide tax rate class 2	Average worldwide tax rate class 2
Married non-resident with assimilation to resident for individual taxation	Pure individual or individual with income reallocation (worldwide rate)	Pure individual or individual with income reallocation (worldwide rate)	Pure individual or individual with income reallocation (worldwide rate)

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## ***Annual statement***

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The annual statement allows resident and non-resident taxpayers, who are not required to file a tax return, to regularize the withholding tax in the following situations:

- start of professional career during the year,
- incomplete activity (arrival or departure during the year),
- change of tax class during the year,
- application for tax advantage for children.

It enables residents to deduct special expenses, claim all tax allowances for extraordinary expenses and apply for the single-parent tax credit.

Non-residents can claim the deduction for dependent children who are not part of the household (alimony).

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## ***Tax returns***

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***Tax returns are mandatory in the following cases:***

- annual taxable income > €100.000,
- annual taxable income > €11.982 and more than €600 not subject to withholding tax,
- annual taxable income > €30.000 and several salaries and pensions in class 1a,
  
- annual taxable income > 36.000€ and several salaries and pensions in classes 1 and 2,
- net income from capital investments/assets > €1.500 or €3.000 in the case of collective taxation,
- worldwide tax rate on tax card,
- formal invitation from the tax authorities to file a tax return.

***It is optional in the following cases:***

- collective taxation in the case of a partnership contract,
- collective taxation of a resident taxpayer married to a non-resident,
- taking into account negative income such as interest on a mortgage,
- request to be treated as a resident.

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## *Situation of non-residents*

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Unlike residents, non-residents have only a limited tax liability in Luxembourg, and are taxed only on their Luxembourg income, without application of the worldwide tax rate.

In the event of a request to be assimilated to a resident, and subject to certain conditions, non-resident taxpayers are taxed in Luxembourg at the tax rate that would be applicable to them if they were Luxembourg residents.

- Non-resident taxpayers can therefore take advantage of all tax deductions and claim negative non-Luxembourg income.
- Non-residents with single parents (class 1a) can claim the single-parent tax credit.
- Married non-residents may apply for class 2 taxation or individual taxation.

The request for assimilation to a resident may be made in accordance with article 157ter LIR.

- Non-resident taxpayers may request assimilation to Luxembourg residents if they earn at least 90% of their worldwide income in Luxembourg. In the case of a salary-split (e.g. telecommuting), the salary for the first 50 days worked outside Luxembourg is assimilated to a Luxembourg salary when determining the 90% minimum rate.
- There is also possible to request assimilation to resident status if the taxpayer working in Luxembourg does not receive more than €13.000 non-Luxembourg income.
- It is sufficient for one of the spouses or partners to satisfy one of the conditions.

The non-Belgian resident taxpayer may also invoke article 24 of the Belgian-Luxembourg tax treaty and request assimilation to a resident in Luxembourg if at least 50% of the household's total professional income is taxable in Luxembourg.



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## *Partnership contract*

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The law provides for the possibility of collective taxation of taxpayers bound by a Luxembourg or foreign partnership contract.

The partnership contract must exist from January 1 to December 31 of the tax year concerned, and both partners must reside at the same address.

Collective taxation is optional and will only be carried out at the joint request of both partners, by means of a tax declaration.

Non-resident taxpayers must also apply to be treated as residents.

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## *Individual taxation of married/partnership taxpayers*

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Individualization is optional and must be requested by both spouses or partners. It applies to residents as well as non-residents, who can apply to be treated as residents.

Individualization can be achieved in two ways,

- through pure individual taxation,
- or by individual taxation including income reallocation.

When both spouses have children, the related tax reductions are shared between each spouse.

The income-averaging effect of collective taxation is lost in pure individual taxation.

Example (tax year 2024) with a taxpayer (C1) earning a taxable salary of €70.000 and a taxpayer (C2) earning a taxable salary of €30.000.

<b>Regime</b>	<b>Tax C1</b>	<b>Tax C2</b>	<b>Total tax</b>
Collective	15.369€ collective and single		15.369€
Individual with 50% reallocation	10.903€	4.466€	15.369€
Pure individual	15.979€	1.924€	17.903€

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## ***Tax News 2023 and 2024 (SOLIDARITEITSPAK 3.0)***

### ***+ Law of December 22, 2023***

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A tax credit based on the adjustment of the income tax scale to inflation up to 2 index brackets is introduced for the 2023 tax year.

From 2024, the personal income tax scale will be adjusted for inflation by 4 index brackets.

The energy bonus for beneficiaries of the cost-of-living allowance (AVC) is extended until the end of 2024.

A tax credit to offset the cost of the CO2 tax for the lowest salaries has been introduced from 2024.

The increase in the ceiling for the "Bëllegen Akt" registration tax credit from €20.000 to €30.000 takes effect on March 7, 2023.

The 50% increase in the ceiling for interest on a mortgage in relation to the owner-occupied home is implemented from the 2023 tax year.

The exemption of rental income from housing subject to social rental management is increased to 75% from tax year 2023.

The threshold at which income from the operation of a photovoltaic installation is taxable has been raised from 10% to 30%.

The tax credit equivalent for REVIS and RPGH beneficiaries will be maintained until the end of 2024.

Non-exhaustive list!

## Essential deductions

Certain deductions can, on request, be entered on the tax deduction card and are therefore directly taken into account when calculating the net salary, while other deductions can only be taken into account when filing an income tax return.

### Personal loan interest and insurance premiums (article 111 LIR)

Interest on personal loans (car, furniture, vacations, etc.), interest on current accounts, personal insurance premiums (life, death, disability, illness), third-party liability insurance premiums (car liability, private liability) and contributions to recognized mutual aid societies (CMCM) are deductible up to a maximum of €672 per member of the tax household per year.

### Increase for single-premium term life insurance

The maximum deductible amounts are increased or surcharged when a single-premium of a residual debt insurance policy is taken out to cover the repayment of a loan granted for the acquisition, construction, conversion or renovation of the future principal residence.

#### Maximum increase for single premium based on age

Taxpayer	≤ 30 years* (€)	from 31 to 49 years €	≥ 50 years (€)
Without child(ren)	6000	+ 480 / an	15600
with 1 child	7200	+ 576 / an	18720
with 2 children	8400	+ 672 / an	21840
with 3 children	9600	+ 768 / an	24960
with 4 children	10800	+ 864 / an	28080
if married or living in a partnership and TSRD on 2 heads			
add	6000	+ 480 / an	15600

\* increase per completed year of age

### The €1.500/year increase for daily allowance insurance

This increase applies to taxpayers who are deprived of all or part of their professional income due to illness or accident.

### Pension savings under article 111bis or 111ter LIR

Premiums paid into a pension savings contract are deductible up to a maximum annual amount of €3.200 per taxpayer, regardless of age.

## Supplementary company pension scheme article 110 LIR

Personal contributions paid by the employee to a supplementary pension scheme set up by the employer for its employees are deductible up to a maximum of €1.200/year.

## Home savings schemes

Contributions paid to home savings schemes approved in the Grand Duchy of Luxembourg or in another member state of the European Union with a view to financing the construction, acquisition or conversion of an apartment or house used for personal living purposes, including the price of the land, as well as the repayment of bonds contracted for the same purposes, benefit from the following deductible ceilings:

Age at January 1st of fiscal year	Maximum deductible amount per member of the tax household (€)
From age 18 to 40	1.344
Beyond age 40	672

## Interest charges on real estate loans

The owner of a building occupied as a principal residence may deduct interest on the loan taken out to finance the acquisition or renovation.

The maximum deductible amounts are :

Number of years since 1st occupancy	Maximum deductible per household member (€)
	since 2023
1 - 5	3.000
6 - 10	2.250
11 and more	1.500

During the vacancy period, the taxpayer can claim the full amount of interest owed, as well as the cost of the credit opening document or the loan application fees and commissions. Other significant costs incurred in obtaining the loan may also be taken into account.

## Donations and gifts

Donations and gifts to charitable organizations are deductible up to a minimum cumulative amount of €120, without exceeding 20% of total net income or €1.000.000.

## Alimony in the event of divorce

Alimony payments between ex-spouses are deductible up to a maximum of €24.000 per year per ex-spouse.

## Personal contributions to a statutory social security scheme

Personal contributions paid to a Luxembourg or foreign statutory social security scheme for ongoing voluntary or optional insurance, and for the purchase of pension insurance periods, are fully deductible.

## Allowance for extraordinary expenses

Extraordinary expenses incurred as a result of accident, illness, the upkeep of needy relatives or unavoidable events may be deducted from taxable income, if they exceed a certain percentage of income (normal charge).

The amount of the normal charge is calculated on the basis of taxable income, tax class and number of dependent children.

### % of taxable income (€)

	Class 1	Class 1a or 2 - % depending on number of children					
Income (€)		0	1	2	3	4	5
RI < 10000	2	0	0	0	0	0	0
RI 10000 - 20000	4	2	0	0	0	0	0
RI 20000 - 30000	6	4	2	0	0	0	0
RI 30000 - 40000	7	6	4	2	0	0	0
RI 40000 - 50000	8	7	5	3	1	0	0
RI 50000 - 60000	9	8	6	4	2	0	0
RI > 60000	10	9	7	5	3	1	0

## Cleaning expenses and child care expenses

Remuneration paid to domestic staff and childcare costs (crèche, nursery, etc.), as well as the cost of assistance and care due to a state of dependence, are deductible, without exceeding the annual ceiling of €5.400.

## Allowance for dependent children outside the household:

The maximum deductible financial expense is €4.422 per year and per child; this is obtained under certain conditions (upbringing costs, education costs, al-ternate care costs).

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### *Single-parent tax credit*

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A single-parent tax credit is granted on application to the parent classified in class 1a.

From tax year 2023 onwards, the single-parent tax credit (CIM) amounts as follows:

- for an adjusted taxable income of less than €60.000, €2.505 per year;
- for adjusted taxable income between €60.000 and €105.000, the MTC is calculated using the formula  $[2.505 - (\text{adjusted taxable income} - €60.000) \times 0,039]$ ,
- for a taxpayer's adjusted taxable income in excess of €105.000: €750.

The CIM is to be reduced by 50% of the amount of allowances of any kind received by the child, to the extent that they exceed the annual amount of €2.424.

Non-residents must opt to be treated as residents in order to benefit from the CIM.

## ***Tax optimization***

Tax optimization begins with the right choice of tax regime.

- The vast majority of people in a partnership have an interest in opting for collective taxation, but this is not always the case.
- In the case of married taxpayers, individual taxation may in some cases be more appropriate than collective taxation.
- As for non-resident taxpayers, since 2018 they have run a definite risk, given that the request for assimilation to a resident, which turns out to be unfavorable, is maintained by the Tax Administration.

Secondly, tax optimization is achieved by taking advantage of all the moderations and tax credits to which you are entitled, and more particularly by using tax savings contracts such as home savings accounts and retirement savings plans.

The tax yield on a savings contract corresponds to the taxpayer's marginal tax rate.

For example, paying an annual pension premium of €3,200 could generate an annual tax gain of up to €1.465, representing a tax yield of 45.78%.

Taxable income (€)	Marginal rates (%) (including employment funds)		
	Tax class 1	Tax class 1a	Tax class 2
25.000	17,12	12,84	8,56
50.000	40,66	41,73	17,12
75.000	41,73	41,73	27,82
100.000	41,73	41,73	40,66
150.000	42,80	42,80	41,73
200.000	44,69	44,69	41,73
300.000	45,78	45,78	42,80
500.000	45,78	45,78	45,78

## Examples of tax Households



### Single 30-year-old without children

Single 30 year old without children, living and working in Esch/Alzette, with an annual income of €43.000. The tax class is 1.

By drawing up an annual statement or a tax return, the taxpayer can benefit from various tax allowances.

#### Existing tax allowances

The annual insurance premiums deductible as special expenses under article 111 LIR are as follows:

- Automobile liability insurance: €487
- Accident insurance: €150
- Private liability insurance: €65

Total: €702 (above the €672 deductible limit)

Home savings: €1.344

#### Tax optimization available

- In order to optimize his tax situation, this taxpayer can also save €3.200 under a "pension saving" policy.

The table below summarizes the 3 situations (year 2024)

Single without child	Without tax tax return (€)	With tax tax return (€)	With tax optimization (€)
Gross annual income	43.000	43.000	43.000
Social contributions	4.400	4.400	4.400
Application fee (fixed price)	540	540	540
Travel expenses	-	-	-
Allowance	-	-	-
Special expenses	480	2.016	5.216
Rental losses	-	-	-
Adjusted taxable income	37.580	36.044	32.844
Total tax due	4.246	3.815	3.003

Simply filing a tax return reduces the annual tax payable from €4.246 to €3.815, representing a gain of €431.

In the case of tax optimization, the additional tax investment of €3.200 recovers a total of €1.243, representing a 25,37% return on tax investment.





## Non resident married couple with a Luxembourg salary and one French salary

Married couple with one child (both aged 38) living in Metz, the husband with an annual income of €75.000 from Luxembourg and the wife with a French annual income of €24.000 from a salaried job in Thionville.

The couple and their child live in a house they have owned and occupied for 2 years.

As the husband's taxable income is less than €100.000, a tax return is not required. The default tax class is 1.

Since the necessary conditions for assimilation as a resident have been met, the husband can, by filing a tax return, take advantage of this possibility and benefit from the worldwide class 2 rate, as well as the inclusion of various fiscal expenses and French negative income (property loan interest).

### Existing tax deductions

The following annual insurance premiums are deductible as special expenses under Article 111 of the Income Tax Act:

- 2 motor liability policies: €342 and €456
- Private liability: €75
- Supplementary health insurance: €882
- Total: €1.755 (below the ceiling of €672 deductible per household member, i.e. €2.016)

Debit interest on the mortgage loan related to the purchase of her home: €7.200  
The maximum deductible interest is  $3 \times 3.000 = 9.000$  €.

### Tax optimization available

- To optimize his tax situation, he can also take out two "provident pension" insurance policies (2x €3.200) and a "home savings" policy (3 x €1.344).

<b>Married couple non-resident</b>	<b>Without tax tax return (€)</b>	<b>With tax tax return (€)</b>	<b>With tax optimization (€)</b>
Gross annual income	75.000	75.000 + 24.000	75.000 + 14.000
Social contributions	8.250	8.250 + 3.200	8.250 + 3.200
Application fee (fixed price)	540	1.080	1.080
Travel expenses	2.574	2.574 + 2.475	2.574 + 2.475
Special expenses	480	1.755	12.187
Extra-professional allowance	-	4.500	4.500
Rental losses	-	9.000	9.000
Adjusted taxable income	63.156	61.881	51.449
<b>Total tax due</b>	<b>14.059</b>	<b>5.737</b>	<b>3.587</b>

By simply filing a tax return, the annual tax liability is reduced from €14.059 to €5.737, representing a saving of €8.322.

In case of tax optimization, the additional tax investment of €10.432 recovers a total of €10.472, representing a return on tax investment of 20,60%.

## *Informations and documents required for tax return*

1. Surname, first name, company number, occupation of taxpayer(s)
2. Address on January 1st of the tax year concerned
3. New address and date of change after January 1st of the tax year concerned
4. Address at time of filing
5. Date of marriage, partnership, divorce or separation
6. Copy of marriage certificate, partnership agreement, divorce or separation if this is the first time you have used our services
7. Bank details (IBAN, BIC)
8. Names, first names, dates of birth of children in the tax household
9. Names, first names, dates of birth of children not included in the tax household in case of alimony payments, alternating custody or contribution to children's education costs.
10. Proof of payment of maintenance, alternating custody or contribution to child-raising costs.
11. School attendance certificate if children are over 21 on January 1 of the relevant tax year.
12. Annual certificates of Luxembourg and non-Luxembourg income for all members of the tax household.
  - Salaries, sick pay, unemployment, parental leave
  - Pensions
  - Net income from other activities
  - Income from marketable securities
  - Other income
13. Certificates of mortgage interest on principal residence
14. Notary's invoice for the opening of the deed of credit in the case of a new purchase of your future principal residence, bank commission and other important obtaining costs.  
Date de première occupation de l'habitation principale
15. Date of first occupancy of principal residence
16. Alimony paid to former spouse
17. Certificates of interest on consumer loans or current accountsinvalidité, conducteur
18. Certificates of personal insurance (death, outstanding balance, accident, illness, life, disability, protected driver, etc.), third-party liability insurance (private liability, auto liability, motorcycle liability, hunting liability, etc.), contributions paid to recognized mutual aid societies (CMCM, etc.).

19. Certificates of contributions paid in a personal capacity due to continued insurance, voluntary or optional, and the purchase of periods of health insurance and pension insurance from a social security scheme.
20. Certificates for premiums paid into provident fund contracts
21. Certificates for home savings accounts
22. Certificates of personal contributions paid into a company supplementary pension plan
23. Certificates for donations to charitable organizations
24. Childcare expenses
25. Domestic expenses
26. Dependency expenses for a member of the tax household
27. Sickness expenses, maintenance of needy relatives, funeral expenses, etc. ...
28. Receipts for rental property
  - Purchase date, construction date, construction completion date
  - Copy of deed of purchase and copy of notary's invoice at time of purchase
  - Proof of rental income
  - Proof of maintenance and repair costs not reimbursed by the tenant
  - Certificate of insurance premiums
  - Proof of management fees
  - Copy of property tax
  - Certificate of interest on mortgage

In the interests of efficiency, please submit your complete application in one go.

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Files are generally processed within 15 to 20 working days.

A non-contractual simulation of the result is attached to the tax return.

**We guarantee the interest or obligation of the tax returns we prepare.**

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## *The author*

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Patrick van Landeghem is a qualified tax expert.  
He is managing partner of CIF S. à r. l. - with the trade name OPTIFISC.

For over 20 years, he has taken part in tax information meetings to help taxpayers prepare their tax returns and, where necessary, optimize their situations.

He is also available to companies, unions and associations wishing to set up a personalized meeting for their employees or members.

For several years, he has been a trainer/ animator for the Chambre des Salariés de Luxembourg, the Institut Supérieur de Travail, the EFE and ALEBA.

As a writer/moderator, he has written numerous articles and editorials, as well as hosting forums, for media such as AGEFI and lesfrontaliers.lu.

For over 33 years, he has worked as an agent for the FOYER Insurance Group, managing the main ASSURA S. à r. l. agency.

With his team, we is at your disposal.



**No 106371/A**

**No B75395**

**Tel. : +352 57 33 86**

**Email [contact@optifisc.lu](mailto:contact@optifisc.lu)**

**[www.optifisc.lu](http://www.optifisc.lu)**

**Tel. : +352 57 33 87**

**contact@assura.lu**

**[www.assura.lu](http://www.assura.lu)**

**94, rue de Belvaux  
L-4025 Esch/Alzette**

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## Our team

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**Patrick van Landeghem**

*Tax expert*



**Mélanie Rodrigues**

*Management*



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# *Our engagement*

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