

THE OECD TAX-BENEFIT DATABASE

Description of policy rules for
Luxembourg 2023



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Description of policy rules for 2023

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Preface

This report provides a detailed description of the tax and benefit rules in Luxembourg as they apply to working-age individuals and their dependent children. It also includes output from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)


Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **January 1, 2023**.
- The TaxBEN models all policies in effect during the reference date. This includes temporary policies implemented in response to the **Covid-19 pandemic**.
- The symbol  in the text provides a link to the glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- **TaxBEN** variables are indicated in the text using the format **[variable name]**.

The OECD tax-benefit model for Luxembourg: Policy rules in 2023

1. Reference wages

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#)).¹ If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate.


The minimum wage **[MIN]** in 2023 is EUR 2 387.40 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2023) by 12, i.e. EUR 2 387.40 * 12 = EUR 28 648.80.

The minimum wage is adjusted every two years (odd years) on 1 January according to the evolution of the average wage level between year-3 and year-2. Additionally, when the national consumer price index (NCPI) increases by 2.5% all wages (and a range of other incomes), including the minimum wage, are automatically increased proportionally³. However, considering the cost-of-living crisis and considering that wages have already been indexed on 1st October 2021 and on 1st April 2022, the Tripartite agreement signed on 31 March 2022 by and between the Government and the social partners that has been transposed in the law of 29 June 2022 stipulates that the first indexation on wages after 1 April 2022 will be postponed to 1 April 2023.

2. Unemployment benefits

2.1. Unemployment indemnity (*Indemnité de chômage*)

Code in the OECD tax-benefit model:⁴ **[UI_p; UI_s]**

This is an unemployment insurance benefit. It is non-contributory, not means-tested and taxable. 

¹ Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

² Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

³ That is, an automatic wage indexation is applied one month after the six-month moving average of the NCPI has reached a difference of 2.5% compared to the last value called "cote d'échéance". The six-month moving average calculated for each month is the average of the overall index of the last 6 available months.


⁴ The variable names ending with "_p" refer to the first adult (so-called "principal" adult) whereas those ending with "_s" are related to the spouse.

2.1.1. Eligibility conditions

Age: It is available for people aged between 16 and 64.

Contribution/employment history: The claimant must have been employed for 26 weeks at a degree of least for 16 hours a week during the 12 months preceding the registration at the public employment service ADEM (Agence pour le développement de l'emploi).

If rights to unemployment benefits are exhausted, right opens once again after a period of 12 months which follows the end of rights if the condition of a new 26 weeks employment in that period is once again fulfilled.

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.⁵ The benefit claimant has to:

1. be registered at the public employment service (ADEM);
2. be available, be able to work and be disposed to accept every appropriate job opportunity in accordance to the grand-ducal regulation of the 25th August 1983 defining the criteria of an appropriate job;
3. be involuntarily unemployed (which excludes termination of an employment contract by mutual consent, leaving a job without a valid reason, resignation and dismissal for serious misconduct “faute grave”);
4. be resident in Luxembourg.

2.1.2. Benefit amount

Calculation base:

The amount of benefits is calculated as a percentage of the average wage during the three months immediately preceding the month during which the unemployment occurs.

Benefit amount: A benefit of 80% of the average wage during the three months immediately preceding unemployment is increased to 85% if the beneficiary has dependent children. The maximum benefit level amounts to 250% of the social minimum reference salary (SSM) during the first 6 months of unemployment. It is reduced to 200% of the SSM for the following 6 months, then to 150% of the SSM in case of an extension beyond the 12 months threshold (up to a maximum of 24 months in total). The social minimum reference salary is EUR 2 387.40 per month as of 1st January 2023 (EUR 28 648.40 for the year 2023).

Unemployment benefits may, under certain conditions, be paid to a young person (between 16 and 28 years of age) at the end of their training. These persons must be registered with the public employment service ADEM as a job seeker and reside in Luxembourg. Other conditions are presented in the table below⁶:

| Qualifications | Age | Rights |
|----------------|-----|--------|
|----------------|-----|--------|

⁵ Details on behavioural requirements and sanction provisions for unemployment benefits are reported at <https://www.oecd.org/social/strictness-benefit-eligibility.htm>

⁶ Further information: [Applying for unemployment benefits as a young resident who has completed training — Citizens — Guichet.lu - Administrative Guide - Luxembourg \(public.lu\)](#)

| | | |
|-------------------------------------------------------------------------------------------|---------------------------|---------------------------------------------------------------------------------------------------------|
| No qualification | less than 21 years of age | unemployment benefits provided the candidate has been registered with ADEM for 6 months |
| No qualifications | more than 21 years of age | no unemployment benefits |
| Successful completion of the apprenticeship with an employer | less than 23 years of age | unemployment benefits with immediate effect |
| Successful completion of the school programme of the apprenticeship | less than 23 years of age | unemployment benefits provided the candidate has been registered with ADEM for 6 months |
| Successful completion of the apprenticeship with the school programme or with an employer | more than 23 years of age | no unemployment benefits |
| Successful completion of the secondary school diploma | less than 25 years of age | unemployment benefits provided the candidate has been registered with ADEM for 6 months |
| Successful completion of the secondary school diploma | more than 25 years of age | no unemployment benefits |
| Successful completion of 4 academic years (Master I) | less than 28 years of age | unemployment benefits provided the candidate has been registered with ADEM for 6 months |
| Successful completion of 4 academic years (Master I) | more than 28 years of age | no unemployment benefits |
| Abandonment of university studies | less than 25 years of age | the right to unemployment benefits at the earliest 6 months after the end of the winter/summer semester |

The age that is taken into account is the age on the day of the registration as a job seeker. It must be noted that no benefit of any kind will be paid in the following cases: abandonment of a job or an apprenticeship contract without a valid reason; termination of an apprenticeship contract or internship contract for serious misconduct; dismissal for serious reasons.

The amount of benefits is set at 40 % of the social minimum wage for adolescents of 16 and 17 years of age, or who failed the final apprenticeship examination; and at 70 % of the social minimum wage for other young people. If the young person has dependent children, the unemployment benefit can be increased by 5 %. Any unemployed person meeting the conditions for admission may be entitled to benefits for a maximum of 12 months.

2.1.3. *Benefit duration*

The benefit is allocated during an equivalent period of time (calculated in months) as the working period fulfilled during the reference period taking in account for opening the right to unemployment allowance. The maximum benefit period is 365 calendar days in a 24-month period. The benefit is paid from the first day of unemployment; there is no waiting period. There may be prolongations for particular groups. Unemployed 50 years old and more qualify for prolongation of the benefit period by 12, 9 or 6 months if the contribution period is 30, 25 or 20 years respectively (with a threshold of 150% of the minimum wage).

Jobseekers aged 55 years or more are granted a prolongation of 6 months without any particular condition (not modelled).

For unemployed aged below 28, the benefit is payable for 365 days (7 days per week) after a waiting period of 26 weeks (completed education period of 9 years at least) or 39 weeks.

2.1.4. *Means test*

The benefit is means-tested.

Article L.521-1 of the Labour Code specifies that a person on service for multiple employers only is eligible if the remaining salary of the employers she still holds is below 1,5* monthly minimum wage (SSM).

Article L.521-18 also specifies the free amount for other (passive) income. In case the income, after deduction of the free amount, is higher than the potential amount of unemployment benefits, they are not granted.

These scenarios are not considered in the TaxBEN model.

2.1.5. *Tax treatment*

Unemployment benefits are taxable. The tax base is the same as that for earned income, including the work related expenses allowance. Social contributions are due for health care, long term care and for pensions (old age, disability and survivors) (see section 7.).

2.1.6. *Interactions with other components of the tax-benefit system*

- Situation where receipt of one benefit automatically gives entitlement to another:
Non-resident unemployed workers are entitled to family allowances if they benefit from unemployment allowance.
- Situations where receipt of two different benefits is mutually incompatible:

Unemployment benefits are incompatible with invalidity pensions, work-accident pensions, tideover allowances, paid sick leaves as well as paid maternity leaves.

Unemployment benefit is included in the income definition used to calculate “allocation d’inclusion” (social inclusion income, Section 3.1), in the income definition used to calculate “allocation de vie chère” (cost-of-living benefit, Section 3.3) and in the income definition used to calculate housing benefit (Section 3.2).

Unemployment benefit is included in the tax base.

As far as unemployment benefit is included in the tax base and that the price that the parents have to pay for childcare is based on the household taxable income, unemployment benefit is interacted with childcare fees (Section 5).

2.1.7. Combining benefit receipt and employment/starting a new job

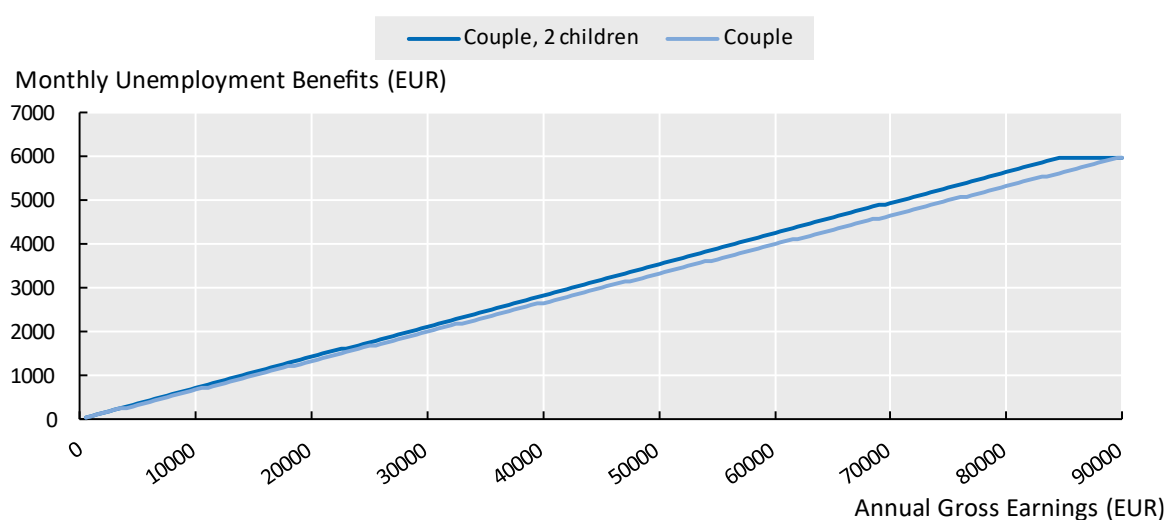
Income from accessory work is compatible with the unemployment benefit as long as it does not exceed 10% of reference salary (3 months are taken for reference salary computation). If the income is higher than 10% of reference salary, the amount in excess is deducted from the benefit.

Unemployment benefits and the underlying contribution/employment requirements are computed on a rolling basis. The counter is not set back to zero once the jobseeker has found a new job. In the standard situation, that is an unemployment benefit duration of up to 12 months (365 calendar days) over a period covering the last 24 months (provided the eligibility conditions set out in point 2.1.1. are fulfilled in the first place). Thus, a jobseeker who finds a new job before the end of his/her maximum EI entitlement can make use of the remaining benefit days at a later stage, within the 12/24 months limit.

2.1.8. Indexation

According to Art. L.521-14, paragraph (1) of the Labour Code, unemployment benefits are indexed as described in Section 1 of this report.

Figure 1 – Unemployment Benefits by gross earnings



Note: All adults are 40 years old. Children, if present, are 4 and 6.

2.2. Unemployment assistance

OECD note: In many OECD countries, jobseekers who do not qualify for Unemployment Insurance (UI – Section 2.1), or whose entitlement to UI is low or has expired, can claim Unemployment Assistance (UA – this section) and/or Social Assistance benefits (SA – Section 3). These UA and SA benefits have different purposes (and reach different target groups). For instance, while the main purpose of UA is to encourage the labour market reintegration of jobseekers who have exhausted or are not eligible to the standard UI benefit, the purpose of SA programmes is to provide an acceptable standard of living for families unable to earn sufficient incomes from other sources. Conditions for UA typically include requirements to register with the public employment service and participate in active job search in a similar way as for UI. This is *not always* the case for SA benefits, for which low income is the key entitlement criterion and activation requirements exist only for those who are capable of work.

Based on this definition, Luxembourg does not currently provide a national/local Unemployment Assistance programme. Nevertheless, Luxembourg does provide a Social Assistance programme (described in Section 3.1).

3. Social assistance and housing benefits

3.1. Social inclusion income (*RE*Venu d’Inclusion Sociale, *REVIS*)

Code in the OECD tax-benefit model: **[REVIS]**

Since the 1st January 2019, the REVIS replaces the previous RMG.

This is a non-contributory benefit, means-tested and taxable.

The REVIS consists in granting :

- either a social inclusion benefit (“allocation d’inclusion”) to provide those who have no income, or whose income falls below a certain threshold, with a basic means of livelihood,
- or an activation benefit (“allocation d’activation”) to financially support a person taking part in an activation programme,
- or a combination of the social inclusion benefit and the activation benefit.

3.1.1. Eligibility conditions

To be eligible for REVIS, applicants must:

- be legally resident and actually live in Luxembourg;
- be **at least 25 years old**;
- be receiving an income, either personally or collectively with their household, which **falls below the thresholds set by law**;
- be looking for a job (if they are not employed), and be and remain registered as a job seeker with the [National Employment Agency](#) (Agence pour le développement de l’emploi – ADEM);
- be prepared to exhaust all options, in Luxembourg or abroad, to improve their situation (for instance, find out whether they are entitled to unemployment benefits, to a pension, etc.).

People under 25 do not qualify for REVIS unless they have dependent children, are 7 months pregnant, are responsible for a dependent person or unable to work.

Beneficiaries of an invalidity or an old-age pension and/or over 64 years do not need to be available for the labour market any longer.

3.1.2. *Benefit amount*

The gross amount of the activation benefit is equivalent to the hourly rate of the minimum wage multiplied by the number of hours the person has to supply.

The amount of the social inclusion benefit is the difference between the REVIS below and the amount defined in section 3.1.4.

| | REVIS (EUR per month) 1st January 2023 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| Amount per adult (Montant forfaitaire de base par adulte) | 837.55 |
| Amount per child (Montant forfaitaire de base par enfant) | 260.04 |
| Additional amount for children living with one parent (per child) (Majoration pour les enfants qui ne vivent qu'avec un seul parent) | 76.83 |
| Amount for common expenses of the household (Montant couvrant les frais communs du ménage) | 837.55 |
| Additional amount for common expenses of households with children (per household) (Majoration couvrant les frais communs du ménage d'une communauté domestique avec enfant(s)) | 125.68 |

3.1.3. *Benefit duration*

There is no duration limit. Benefit is paid monthly.

3.1.4. *Means test*

Income test

Gross income from whatever source is included in the income test, including:

- Gross earnings, (disregarding an amount of 25% of the earned income)

- Unemployment Insurance income (disregarding an amount of 25% of the benefit) (Section 2.1)
- Other income sources not included in TaxBEN (such as pension income, disregarding 25% of the income amount)
- Income taxes and employee social security contributions are NOT deducted from the reference income

Family allowances, new school year allowance, cost-of-living benefit, childcare benefits and tax credits are not considered as income for the social assistance means test.

Asset test

Assets affect the benefit amount. The total value of assessable assets is converted to a life annuity and added to assessable income for the purposes of the income test (see above). The conversion depends on age of the applicant at the time of claim (the year of claim minus the year of birth). In the case of a couple, the conversion rate of the youngest member of the couple applies. The conversion rate ranges from 0.04494 for recipients aged up to 25 at time of claim to 0.16505 for recipients aged 81 or over. The conversion rate for a 40-year-old is 0.05060.⁷

The **institution responsible** for the assessment of the asset test is the National Solidarity Fund (Fonds national de Solidarité) responsible of the REVIS.

Assets included in the assessment:

- The value of immovable property is determined as follows:
 - o The capital value of the main residence occupied by the applicant is not taken into account
 - o The value of other property is determined by multiplying the unit values as set by the Direct Tax Administration by 120 (agricultural or forest land) or 200 (all other properties).⁸
- The value of movable property is determined according to its market value on the day of application.
 - o An amount of EUR 2500 at index 100 is disregarded. At 1 January 2023, the index is 887.01, and thus EUR 22 175.25 is disregarded.

Vehicles, jewellery, phones, televisions, computers, and other household items are not considered in the assessed assets.

⁷ Conversion rates for all ages are listed in Schedule A of the REVIS Act:

<https://legilux.public.lu/eli/etat/leg/loi/2018/07/28/a630/jo>

⁸ If the applicant of the REVIS has an asset abroad, he must produce a certificate, drawn up by a competent public authority, allowing the National Solidarity Fund either to apply the criteria applied for an asset in Luxembourg or to establish the value of this fortune. If it is unable to produce such a certificate, the Fund shall assess the value of the assets according to of the elements available to him. In case of disagreement on the value of the asset as well, the applicant can produce a notarial deed recent or an expertise established by a sworn expert.

3.1.5. Tax treatment

The activation benefit and the social inclusion benefit are taxable. Full social security contributions are payable with the activation benefit whereas for the social inclusion benefit, in general only the sickness contributions and long term care contributions are payable.

Pensions contributions are paid by the National Solidarity Fund for those beneficiaries of a social inclusion benefit who have already a period of insurance of at least 25 years in the general pension scheme. The difference between the social minimum reference salary and the beneficiary's professional income is the taxes base.

3.1.6. Interaction with other components of the tax-benefit system

The social inclusion benefit and the activation benefit are included in the income definition used to calculate the annual gross income limits of the cost-of-living benefit (see 3.3.4.) and on the income definition used to calculate housing benefit.

The social inclusion benefit and the activation benefit are included in the tax base.

3.1.7. Combining benefit receipt and employment/starting a new job

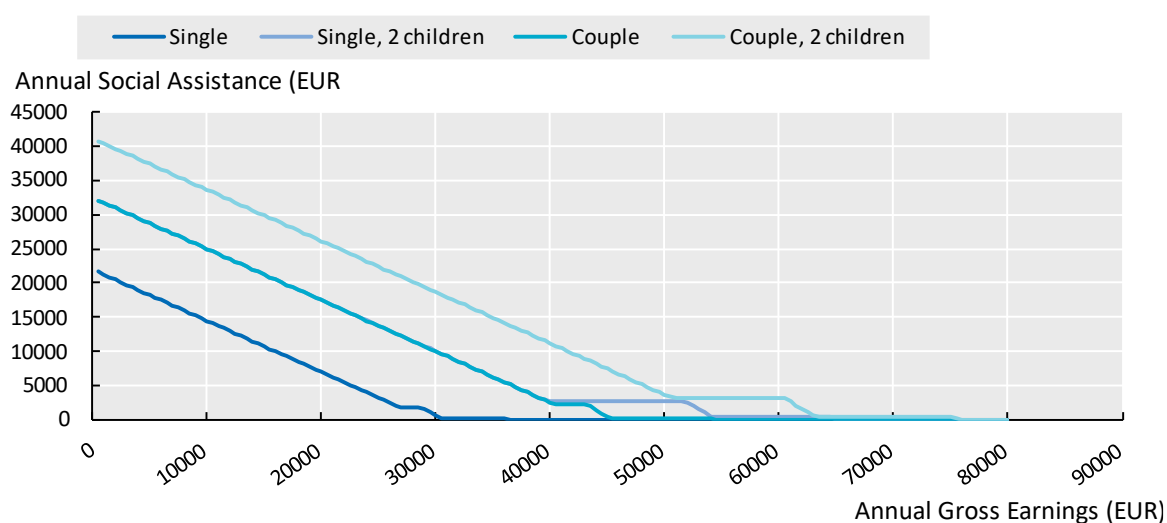
As far as the income from an employment/starting a new job is lower than the REVIS (for example a part-time job or a full time job in a large family) the right of the REVIS is still open. If the income from the new job is higher than REVIS, the benefit is suspended.

3.1.8. Indexation

The social inclusion benefit is indexed like the minimum wage as described in Section 1.

The social inclusion benefit is usually also adjusted to the adjustment of the minimum wage every odd year as described in Section 1.

Figure 2 – Social Assistance by gross earnings



Note: Social assistance includes the cost-of-living benefit (Section 3.3) and the energy allowance (Section 3.4). All adults are 40 years old. In case of couples, spouse does not work. Children, if present, are 4 and 6.

3.2. *Housing benefit (Subvention de loyer)*

Code in the OECD tax-benefit model: [\[HB\]](#)

This is a non-contributory benefit, means-tested and not taxable.

3.2.1. *Eligibility conditions*

The “*subvention de loyer*” concerns households (applicant must be 18 years old and more) living in Luxembourg with low income and who rent or wish to rent a dwelling on the private market (households who rent social housing are excluded from this benefit). Furthermore, the rent must exceed more than 25% of the income (this condition is not applied in the TaxBEN model) and the applicant must not be owner of a dwelling in Luxembourg or abroad.

3.2.2. *Benefit amount*

The “*subvention de loyer*” is calculated according to:

- the income of the household,
- the composition of the household,

According to the household composition and the income, the maximal monthly amount varies between 200 EUR and 400 EUR but may not exceed the rent paid by the household.

Amount as of 1st January 2023 (The amounts of the subvention the loyer have been in force since 1st August 2022)⁹

| Type of household | AS (EUR/month) | AI (EUR/month) | RI (EUR/year) | RS (EUR/year) |
|-----------------------------|-------------------|-------------------|------------------|------------------|
| 1 person | 200 | 10 | 29 029.03 | 39 176.04 |
| Household without children | 280 | 10 | 43 543.55 | 60 145.35 |
| Household with 1 child | 320 | 10 | 55 155.16 | 70 967.65 |
| Household with 2 children | 360 | 10 | 66 766.77 | 80 255.19 |
| Household with 3 children | 400 | 10 | 78 378.38 | 87 209.87 |
| + for each subsequent child | / | / | 8 708.71 | 9 717.27 |

The amount of « *subvention de loyer* » is calculated with the following formula:

$A = AS - ((R-RI)/(RS-RI)*(AS-AI))$ where:

- A is the amount of the « *subvention de loyer* »;

⁹ Legal reference of the change: <https://legilux.public.lu/eli/etat/leg/loi/2022/07/22/a396/jo>

Institutional reference of the change: <https://guichet.public.lu/en/citoyens/sante-social/action-sociale/subvention-loyer.html>

- R is the yearly net income
- AS is the monthly maximum amount of the housing benefit;
- AI is the monthly minimum amount of the housing benefit;
- RI is the yearly income ceiling for the maximum housing benefit;
- RS is the yearly income ceiling for the minimum housing benefit

3.2.3. *Benefit duration*

No duration limit. Housing benefit is paid monthly.

3.2.4. *Means test*

The income represents the sum of¹⁰:

- gross income subjected to income tax, including earnings, Unemployment Indemnity (Section 2.1) and REVIS (Section 3.1)
 - less professional expenses (minimum of EUR 540 (multiply by 2 in case of two wage earners in the household)),
 - less an allowance of EUR 300 for households receiving REVIS/RGPH or receiving any pension (multiply by 2 in case of two pension beneficiaries)
- Other income not considered in the TaxBEN model (including parental leave benefit, received alimony, accident at work pension, gross wage for overtime hours worked)
- less social contributions;
- less income tax
- less paid alimony (not considered in the TaxBEN model).

The income of the descendants and ascendants of the applicant who live in the dwelling of the household and which are declared there are to be added to the said sum.

3.2.5. *Tax treatment*

Not taxable

3.2.6. *Interaction with other components of the tax-benefit system*

From January 1, 2019, cumulating the housing benefit and the REVIS is possible¹¹.

¹⁰ As referred to in article 10 of the modified law of 4 December 1967 on income tax

¹¹ Prior to this, no cumulation of the rent subsidy and the rent housing for social assistance recipients (majoration RMG) is possible, so only a “subvention de loyer” can be obtained by beneficiaries of the social assistance (RMG) in case of a new application or a modification of the financial/family situation as of 1st January 2016. However, beneficiaries of the social assistance (RMG) having received the so-called housing benefit for social assistance recipients (majoration RMG) before the introduction of the “subvention de loyer” continue to receive it after the 1st January 2016 as long as no change concerning the family or the financial situation is observed (transitory arrangement).

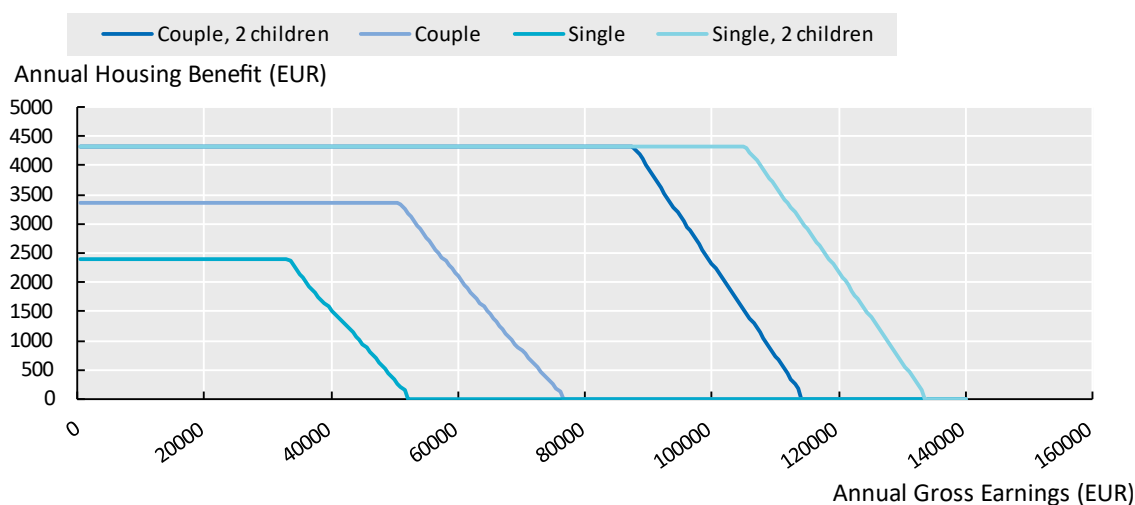
3.2.7. Combining benefit receipt and employment/starting a new job

Yes

3.2.8. Indexation

The amount of the housing benefit (A, AS and AI) is not indexed. It is fixed on an ad hoc basis. However, the amount of the yearly income ceiling (RI and RS) are indexed like the minimum wage as described in section 1.

Figure 3 – Housing Benefit by gross earnings



Note: All parents are 40 years old. In case of couple, spouse does not work. Children, if present, are 4 and 6.

3.3. The cost-of-living benefit (*Allocation de vie chère*)

Code in the OECD tax-benefit model: [\[ELA\]](#)

The National Solidarity Fund (Fonds National de Solidarité) will grant on demand for the year 2023 a cost-of-living benefit (“**allocation de vie chère**”), which consists in an annual amount.

This is a non-contributory benefit, means-tested and not taxable.

3.3.1. Eligibility conditions

The cost-of-living benefit may be awarded to anyone who:

- **is legally resident and** actually lives in Luxembourg;
- **has been legally resident** in Luxembourg for a reference period of **12 continuous months** prior to the month in which they submitted the application;
- either alone or cumulatively with the people living with the applicant in the same [household](#), and at the time of submitting the application, has a **low annual income**.

Students are not entitled to the cost-of-living benefit.

3.3.2. *Benefit amount*

The cost-of-living benefit for 2023 is fixed as (divided by 12 for monthly amounts) :

- 1 652 EUR/year for a single person
- 2 065 EUR/year for a family type of 2 persons
- 2 478 EUR/year for a family type of 3 persons
- 2 891 EUR/year for a family type of 4 persons
- 3 304 EUR/year for a family type of 5 persons and more.

In case the above, annual gross income limit (see 3.3.4.) is exceeded by an amount not exceeding the amount of the cost-of-living benefit corresponding to the family type, the benefit of a **reduced cost-of-living benefit** is possible. For these cases, the reduced benefit is equal to the gross annual income limit for a family type plus the amount of the cost-of-living benefit for this family type less the gross annual income of this family type.

Example:

- Annual cost-of-living benefit for a family of 1 person: 1 652 EUR/year
- Annual gross income limit for a family of 1 person: 28 730.85 EUR/year
- Annual gross income: 29 000 EUR/year
- Reduced annual cost-of-living benefit will be:

$$28\,730.85 + 1\,652 - 29\,000 = 1\,382.85 \text{ EUR/year}$$

3.3.3. *Benefit duration*

The amount is due for 1 year. Each year, applicants must make a new demand for the cost-of-living-benefit. There is no limit in the number of years.

3.3.4. *Means test*

For the cost-of-living benefit, the income definition includes all gross income, including:

- Earnings
- Unemployment insurance income (Section 2.1)
- Social inclusion income (Section 3.1)
- Income taxes and employee social security contributions are NOT deducted from income for the purposes of the means test

The housing benefit, family benefits, school expenses allowance, birth allowance, childcare benefits and tax credits are not considered in the income definition. The annual gross income limits for 2023 are fixed as (divided by 12 for monthly gross income limits):

| Family type | Annual gross income limits (EUR per year) January 1, 2023 |
|-------------|--------------------------------------------------------------|
| 1 person | 28 730.85 |
| 2 persons | 43 096.28 |
| 3 persons | 51 715.53 |
| 4 persons | 60 334.78 |
| 5 persons | 68 954.03 |
| 6 persons | 77 573.28 |
| 7 persons | 86 192.53 |
| 8 persons | 94 811.78 |
| 9 persons | 103 431.03 |
| 10 persons | 112 050.28 |

3.3.5. Tax treatment

The cost-of-living benefit is tax free and social contribution free.

3.3.6. Interaction with other components of the tax-benefit system

No, it can be cumulated with REVIS or any other component of the tax-benefit system. The cost-of-living benefit is NO MORE included in the income definition used to calculate the housing benefit.

3.3.7. Combining benefit receipt and employment/starting a new job

Yes, but if the salary of the new job is bigger than the annual gross income limit, the cost-of-living benefit must be paid back to the National Solidarity Fund.

3.3.8. Indexation

The cost-of-living benefit is adapted on an ad hoc basis. The annual gross income limits are yearly adapted to the level of the sliding scale index in force the 1st January and to the adjustment of the minimum wage. The sliding scale index (base 100: 1948) is adapted each time the national consumer price index (NCPI) increases by 2.5%. At the 1st January 2023 the value (“cote d’application”) of the sliding scale index is 877.01 points.

3.4. The energy allowance (Prime énergie)¹²

Code in the OECD tax-benefit model: **[EA]**

The National Solidarity Fund (Fonds National de Solidarité) will grant for the year 2023 an energy allowance (“**Prime énergie**”), which consists in an annual amount, to all beneficiaries of the cost-of-living allowance and on demand to households not eligible to

¹² <https://guichet.public.lu/en/actualites/2022/mars/22-prime-energie.html>

the cost-of-living allowance due to the fact that their annual gross income is a bit too high. This energy allowance was available with retroactive effect from 1 January 2022 and is included in the 2022 and 2023 TaxBEN model.

This is a non-contributory benefit, means-tested and not taxable.

3.4.1. *Eligibility conditions*

The energy allowance may be awarded to anyone who:

- **is legally resident and** actually lives in Luxembourg;
- **has been legally resident** in Luxembourg for a reference period of **12 continuous months** prior to the month in which they submitted the application;
- either alone or cumulatively with the people living with the applicant in the same household, and at the time of submitting the application, has a **low annual income**.

Students are not entitled to the energy allowance.

3.4.2. *Benefit amount*

The energy allowance for 2023 is fixed as (divided by 12 for monthly amounts) :

- 200 EUR/year for a single person
- 250 EUR/year for a family type of 2 persons
- 300 EUR/year for a family type of 3 persons
- 350 EUR/year for a family type of 4 persons
- 400 EUR/year for a family type of 5 persons and more.

In case the above, annual gross income limit (see 3.4.4.) is exceeded by an amount not exceeding the amount of the energy allowance corresponding to the family type, the benefit of a **reduced energy allowance** is possible. For these cases, the reduced benefit is equal to the gross annual income limit for a family type plus the amount of the energy allowance for this family type less the gross annual income of this family type.

Example:

- Annual energy allowance for a family of 1 person: 200 EUR/year
- Annual gross income limit for a family of 1 person: 35 913.56 EUR/year
- Annual gross income: 36 000 EUR/year
- Reduced annual energy allowance will be:
 $35\,913.56 + 200 - 36\,000 = 113.56$ EUR/year

3.4.3. *Benefit duration*

The amount is due for 1 year.

3.4.4. *Means test*

For the energy allowance, the income definition includes all gross income, including:

- Earnings
- Unemployment insurance income (Section 2.1)
- Social inclusion income (Section 3.1)
- Income taxes and employee social security contributions are NOT deducted from income for the purposes of the means test

The housing benefit, family benefits, school expenses allowance, birth allowance, childcare benefits and tax credits are not considered in the income definition. The annual gross income limits for 2023 are fixed as (divided by 12 for monthly gross income limits):

| Family type | Annual gross income limits (EUR per year) January 1, 2023 |
|--------------------|----------------------------------------------------------------------|
| 1 person | 35 913.56 |
| 2 persons | 53 870.34 |
| 3 persons | 64 644.41 |
| 4 persons | 75 418.48 |
| 5 persons | 86 192.55 |
| 6 persons | 96 966.02 |
| 7 persons | 107 740.69 |
| 8 persons | 118 514.76 |
| 9 persons | 129 288.83 |
| 10 persons | 140 062.9 |

3.4.5. *Tax treatment*

The energy allowance is tax free and social contribution free.

3.4.6. *Interaction with other components of the tax-benefit system*

No, it can be cumulated with REVIS or any other component of the tax-benefit system.

3.4.7. *Combining benefit receipt and employment/starting a new job*

Yes, but if the salary of the new job is bigger than the annual gross income limit, the energy allowance must be paid back to the National Solidarity Fund.

3.4.8. *Indexation*

The energy allowance is adapted on an ad hoc basis. The annual gross income limits are yearly adapted to the level of the sliding scale index in force the 1st January and to the adjustment of the minimum wage.

4. Family benefits

Code in the OECD tax-benefit model: [\[FB\]](#)

4.1. Family allowance (*Allocation pour l'avenir des enfants*)

This is a non-contributory benefit, not means-tested and not taxable.

4.1.1. Eligibility conditions

Family allowances are paid only to families with dependent children under 18 (or under 25 if still in secondary education; higher education, such as university studies, are excluded since 2010).

4.1.2. Benefit amount

All amounts are as at 1 January 2023.

New claimants and children living in a one-child family: 285.41 EUR/month

Pre-reform claimants (reform entered in Law the 1st august 2016):

| Child belonging, before the reform, to a family group of ... | EUR/month |
|--------------------------------------------------------------|-----------|
| 2 children | 320,11 |
| 3 children | 370,9 |
| 4 children | 396,34 |
| 5 children | 411,53 |
| 6 children | 421,69 |
| 7 children | 428,97 |
| 8 children | 434,37 |
| 9 children | 438,59 |
| 10 children | 442,01 |
| 11 children | 444,79 |
| 12 children | 447,04 |
| 13 children | 449,02 |
| 14 children | 450,73 |

| | |
|-------------|--------|
| 15 children | 452,16 |
| 16 children | 453,42 |
| 17 children | 454,5 |
| 18 children | 455,49 |
| 19 children | 456,39 |
| 20 children | 457,2 |
| 21 children | 457,92 |
| 22 children | 458,55 |
| 23 children | 459,18 |
| 24 children | 459,72 |
| 25 children | 460,25 |

Additional complement for children aged 6 and more (new claimants and pre-reform claimants): 21.57 EUR/month

Additional complement for children aged 12 and more (new claimants and pre-reform claimants): 53.85 EUR/month

4.1.3. *Benefit duration*

The duration is fixed by the age limit (see 4.1.1.).

4.1.4. *Means test*

The allowance is not means-tested.

4.1.5. *Tax treatment*

The allowance is not taxable.

4.1.6. *Interaction with other components of the tax-benefit system*

Since 2018, the family allowance is no longer included in the income definition used to calculate the cost-of-living benefit and no longer included in the income definition used to calculate the “housing benefit”.

4.1.7. *Combining benefit receipt and employment/starting a new job*

Yes

4.1.8. *Indexation*

Between December 2006 and September 2021 family allowances were no longer indexed. Since October 2021 they are indexed again. Family allowances are indexed like the minimum wage as described in Section 1 and it is the only income component not concerned by the postponement of an index to 1 April 2023. Contrary to the other income component concerned by the index mechanism, family allowances have benefited from an index in July 2022.

4.2. *New school year allowance (Allocation de rentrée scolaire)*

Code in the OECD tax-benefit model: [\[school_all\]](#)

This is a non-contributory benefit, not means-tested and not taxable.

4.2.1. *Eligibility conditions*

Luxembourg pays new school year allowance in August each year for all children receiving family benefits aged six and older who are either in the primary school or the secondary school.

4.2.2. *Benefit amount*

For each child over age six, the allowance is 115 EUR/year and 235 EUR/year for each child age 12 or older (divided by 12 for monthly amounts).

4.2.3. *Benefit duration*

As long as a child receives family allowances.

4.2.4. *Means test*

Not means-tested.

4.2.5. *Tax treatment*

Non-taxable.

4.2.6. *Interaction with other components of the tax-benefit system*

Since 2018, the new school year allowance is no longer included in the income definition used to calculate the cost-of-living benefit.

4.2.7. *Combining benefit receipt and employment/starting a new job*

Yes

4.2.8. *Indexation*

No indexation.

4.3. *Tax credit for lone-parent (Crédit d'impôt monoparental)*

A tax credit for lone-parent is available (see section 8.1.4).

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **January 1, 2023**.

School is compulsory for children as of for 4 years of age; early childhood education initiates at the age of 3 years while non-formal education (childcare) is practiced by the childcare facilities of every age. Childcare is provided by several types of childcare facilities, welcoming children in their early childhood age to those aged up to 12. Some are *associations sans but lucratif* (not-for-profit organisations) or facilities managed by municipalities; others are private-law undertakings.

5.1. Gross childcare fees

Code in the OECD tax-benefit model: `[LXcc_cost]`

The government applies a set of free education and childcare services which are detailed in section 5.2. of this report.

- The Multilingual Education Program provides 20 hours of free childcare per week for 46 weeks per year for children aged 1-4.
- For school-aged children, the free non formal education childcare program provides free meals and free childcare during school periods, from Monday to Friday from 7 a.m. to 7 p.m. for children subject to compulsory schooling and attending care facilities.

All information in this section applies for children in a collective childcare facility and additional to the free provisions.

The government applies a measure called “childcare-service vouchers” (Chèque-service accueil – CSA). The service voucher is an allowance paid in kind rather than in cash and represents a dedicated type of public benefit for children and their families.

Children are eligible to child care vouchers if they are aged 0-12 or still in primary education.

The value of the voucher is up to EUR 6,00 per hour. For children aged 1 to 4 in a day care service an add on of EUR 0,71 per hour is applied due to a multilingualism education program. The value of the voucher is not subject to any kind of indexation.

However, the parents’ financial contribution that is function of the household taxable income is impacted by the indexation mechanism insofar that it is classified according a factor of the minimum wage, which is subject to indexation as described in section 1. Siblings taken into account in order to determine the rank of the child are those eligible to family allowances.

The parents’ financial contributions are calculated following three different scales depending on the number of hours of childcare (Tariff 1, Tariff 2, Tariff 3) plus a scale for the meals. There are 2 different categories of scales: childcare centres and child minders. The categories are then subdivided in a scale for school aged (4-12) children and a scale for non schooled (0-4) children (see table below). The two scales are identical up to the hourly price applied in each category.

Children exposed to the risk of poverty and/or threatened by social exclusion¹³ are more specifically targeted by the child care voucher scheme. They are entitled to a higher number of hours per week free of charge.

Taxable income is defined as follows: gross income subjected to personal income taxation (earnings, unemployment benefit income (Section 2.1), the *allocation d'inclusion* (Section 3.1), other replacement income) less EUR 540/year/wage earner for professional expenses (in case of receiving a wage or unemployment benefit), less EUR 300/year (in case of receiving the “allocation d'inclusion”) less EUR 480/year for special expenses (doubled in case of two wage earners) less social contributions paid for health insurance and for pension insurance.

OECD note: When modelling the CSA program, the TaxBEN model assumes that childcare is used for all hours when both parents are working, up to a maximum of 40 hours. TaxBEN assumes an hourly cost equal to the maximum subsidy including the multilingual education add on (EUR 6,71) for children between 1 and 4 years old. A similar assumption is made for meal subsidies (EUR 4,50). The resulting childcare subsidy is calculated with reference to this base cost.

¹³ The criteria for identifying children exposed to the risk of poverty are those living in households where there is a low level of income, excessive indebtedness, extraordinary costs, illness of one of the household members and the best interests of the child (principle stipulated by article 3 of the UN Convention on the Rights of the Child, 1989).

Scale of the participation of the parents for childcare as of the 1st January 2023:

The columns indicating the “Tarif” are not subject to indexation.

| Niveau de revenu | Enfants du ménage | Age des enfants | Heures | Tarif | Heures | Tarif | Heures | Tarif | Tarif |
|----------------------------------------------|-----------------------|------------------|-----------|-----------|-----------|-----------|-----------|-----------|---------|
| | | | Tranche 1 | Tranche 1 | Tranche 2 | Tranche 2 | Tranche 3 | Tranche 3 | Repas |
| Situation de précarité et d'exclusion ou RMG | 1 | Tous les enfants | 13 heures | gratuit | 21 heures | gratuit | 26 heures | 0,50 € | gratuit |
| | 2 | Tous les enfants | 13 heures | gratuit | 21 heures | gratuit | 26 heures | 0,30 € | gratuit |
| | 3 | Tous les enfants | 13 heures | gratuit | 21 heures | gratuit | 26 heures | 0,15 € | gratuit |
| | A partir du 4e enfant | Tous les enfants | 13 heures | gratuit | 21 heures | gratuit | 26 heures | gratuit | gratuit |
| Revenu inférieur à 1,5 SSM | 1 | Tous les enfants | 13 heures | gratuit | 21 heures | 0,50 € | 26 heures | 0,50 € | 0,50 € |
| | 2 | Tous les enfants | 13 heures | gratuit | 21 heures | 0,30 € | 26 heures | 0,30 € | 0,50 € |
| | 3 | Tous les enfants | 13 heures | gratuit | 21 heures | 0,15 € | 26 heures | 0,15 € | 0,50 € |
| | A partir du 4e enfant | Tous les enfants | 13 heures | gratuit | 21 heures | gratuit | 26 heures | gratuit | 0,50 € |
| Revenu inférieur à 2 SSM | 1 | Tous les enfants | 13 heures | gratuit | 21 heures | 1,00 € | 26 heures | 1,50 € | 1,00 € |
| | 2 | Tous les enfants | 13 heures | gratuit | 21 heures | 0,70 € | 26 heures | 1,10 € | 1,00 € |
| | 3 | Tous les enfants | 13 heures | gratuit | 21 heures | 0,35 € | 26 heures | 0,55 € | 1,00 € |
| | A partir du 4e enfant | Tous les enfants | 13 heures | gratuit | 21 heures | gratuit | 26 heures | gratuit | 1,00 € |
| Revenu inférieur à 2,5 SSM | 1 | Tous les enfants | 8 heures | gratuit | 21 heures | 1,50 € | 31 heures | 2,50 € | 1,50 € |
| | 2 | Tous les enfants | 8 heures | gratuit | 21 heures | 1,10 € | 31 heures | 1,80 € | 1,50 € |
| | 3 | Tous les enfants | 8 heures | gratuit | 21 heures | 0,55 € | 31 heures | 0,90 € | 1,50 € |
| | A partir du 4e enfant | Tous les enfants | 8 heures | gratuit | 21 heures | gratuit | 31 heures | gratuit | 1,50 € |

| | | | | | | | | | |
|----------------------------|-----------------------|------------------|----------|---------|-----------|---------|-----------|---------|--------|
| Revenu inférieur à 3 SSM | 1 | Tous les enfants | 8 heures | gratuit | 21 heures | 2,00 € | 31 heures | 3,50 € | 2,00 € |
| | 2 | Tous les enfants | 8 heures | gratuit | 21 heures | 1,50 € | 31 heures | 2,60 € | 2,00 € |
| | 3 | Tous les enfants | 8 heures | gratuit | 21 heures | 0,75 € | 31 heures | 1,30 € | 2,00 € |
| | A partir du 4e enfant | Tous les enfants | 8 heures | gratuit | 21 heures | gratuit | 31 heures | gratuit | 2,00 € |
| Revenu inférieur à 3,5 SSM | 1 | Tous les enfants | 3 heures | gratuit | 21 heures | 2,50 € | 36 heures | 4,50 € | 2,00 € |
| | 2 | Tous les enfants | 3 heures | gratuit | 21 heures | 1,80 € | 36 heures | 3,30 € | 2,00 € |
| | 3 | Tous les enfants | 3 heures | gratuit | 21 heures | 0,90 € | 36 heures | 1,65 € | 2,00 € |
| | A partir du 4e enfant | Tous les enfants | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 2,00 € |
| Revenu inférieur à 4 SSM | 1 | Jeune enfant | 3 heures | 3,50 € | 21 heures | 3,50 € | 36 heures | 5,50 € | 2,00 € |
| | 2 | Jeune enfant | 3 heures | 2,70 € | 21 heures | 2,70 € | 36 heures | 4,10 € | 2,00 € |
| | 3 | Jeune enfant | 3 heures | 1,60 € | 21 heures | 1,60 € | 36 heures | 2,05 € | 2,00 € |
| | A partir du 4e enfant | Jeune enfant | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 2,00 € |
| | 1 | Enfant scolarisé | 3 heures | 3,50 € | 21 heures | 3,50 € | 36 heures | 5,50 € | 3,00 € |
| | 2 | Enfant scolarisé | 3 heures | 2,70 € | 21 heures | 2,70 € | 36 heures | 4,10 € | 3,00 € |
| | 3 | Enfant scolarisé | 3 heures | 1,60 € | 21 heures | 1,60 € | 36 heures | 2,05 € | 3,00 € |
| | A partir du 4e enfant | Enfant scolarisé | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 3,00 € |
| Revenu inférieur à 4,5 SSM | 1 | Jeune enfant | 3 heures | 4,00 € | 21 heures | 4,00 € | 36 heures | 6,00 € | 2,00 € |
| | 2 | Jeune enfant | 3 heures | 3,20 € | 21 heures | 3,20 € | 36 heures | 4,80 € | 2,00 € |
| | 3 | Jeune enfant | 3 heures | 2,10 € | 21 heures | 2,10 € | 36 heures | 2,40 € | 2,00 € |
| | A partir du 4e enfant | Jeune enfant | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 2,00 € |

| | | | | | | | | | |
|----------------------------------|-----------------------|------------------|----------|---------|-----------|---------|-----------|---------|--------|
| | 1 | Enfant scolarisé | 3 heures | 4,00 € | 21 heures | 4,00 € | 36 heures | 6,00 € | 4,50 € |
| | 2 | Enfant scolarisé | 3 heures | 3,20 € | 21 heures | 3,20 € | 36 heures | 4,80 € | 4,50 € |
| | 3 | Enfant scolarisé | 3 heures | 2,10 € | 21 heures | 2,10 € | 36 heures | 2,40 € | 4,50 € |
| | A partir du 4e enfant | Enfant scolarisé | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 4,50 € |
| Revenu égal ou supérieur 4,5 SSM | 1 | Jeune enfant | 3 heures | 4,00 € | 21 heures | 4,00 € | 36 heures | 6,00 € | 2,00 € |
| | 2 | Jeune enfant | 3 heures | 3,20 € | 21 heures | 3,20 € | 36 heures | 5,60 € | 2,00 € |
| | 3 | Jeune enfant | 3 heures | 2,10 € | 21 heures | 2,10 € | 36 heures | 2,80 € | 2,00 € |
| | A partir du 4e enfant | Jeune enfant | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 2,00 € |
| | 1 | Enfant scolarisé | 3 heures | 4,00 € | 21 heures | 4,00 € | 36 heures | 6,00 € | 4,50 € |
| | 2 | Enfant scolarisé | 3 heures | 3,20 € | 21 heures | 3,20 € | 36 heures | 5,60 € | 4,50 € |
| | 3 | Enfant scolarisé | 3 heures | 2,10 € | 21 heures | 2,10 € | 36 heures | 2,80 € | 4,50 € |
| | A partir du 4e enfant | Enfant scolarisé | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 4,50 € |
| Sans indication de revenu | 1 | Jeune enfant | 3 heures | 4,00 € | 21 heures | 4,00 € | 36 heures | 6,00 € | 2,00 € |
| | 2 | Jeune enfant | 3 heures | 3,20 € | 21 heures | 3,20 € | 36 heures | 5,60 € | 2,00 € |
| | 3 | Jeune enfant | 3 heures | 2,10 € | 21 heures | 2,10 € | 36 heures | 2,80 € | 2,00 € |
| | A partir du 4e enfant | Jeune enfant | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 2,00 € |
| | 1 | Enfant scolarisé | 3 heures | 4,00 € | 21 heures | 4,00 € | 36 heures | 6,00 € | 4,50 € |
| | 2 | Enfant scolarisé | 3 heures | 3,20 € | 21 heures | 3,20 € | 36 heures | 5,60 € | 4,50 € |
| | 3 | Enfant scolarisé | 3 heures | 2,10 € | 21 heures | 2,10 € | 36 heures | 2,80 € | 4,50 € |
| | A partir du 4e enfant | Enfant scolarisé | 3 heures | gratuit | 21 heures | gratuit | 36 heures | gratuit | 4,50 € |

Examples (for a child aged two with a school-aged older sibling, i.e. the 2nd child):

1. In a household with an income smaller than 2.5 minimum wage:

| School week | School holiday |
|------------------------------------------------------------|---------------------------------------------|
| Use of 20* hours within the Multilingual Education Program | n.a. |
| 21 - 28 hours/week are free of charge (Tariff 1) | 8 hours/week are free of charge (Tariff 1) |
| 29 - 49 hours/week: EUR 1,10 (Tariff 2) ** | 9-29 hours/week: EUR 1,10 (Tariff 2) |
| 50 - 60 hours/week: EUR 1,80 (Tariff 3) | 30-60 hours/week: EUR 1,80 (Tariff 3) |
| >60 hours: EUR 6 (full tariff) | >60 hours: EUR 6 (full tariff) |
| Main meal: EUR 1,50/meal (5 meals per week) | Main meal: EUR 1,50/meal (5 meals per week) |

*20 hours is the maximum possible program and is assumed in the TaxBEN model.

The TaxBEN model assumes up to 40 hours of care per week, for 52 'school' weeks per year.¹⁴ Thus the annual fee is calculated as:

$$(20 \times 0 + 8 \times 0 + 12 \times 1.10) \times 52 + (5 \times 1.50) \times 52 = \text{EUR } 1076.40$$

2. In a household who might be at risk of social exclusion (beneficiaries of social assistance) or exposed to the risk of poverty:

| School week | School holiday |
|------------------------------------------------------------|---------------------------------------------------|
| Use of 20* hours within the Multilingual Education Program | n.a. |
| 21 - 54 hours/week are free of charge (Tariff 1 and 2) | 34 hours/week are free of charge (Tariff 1 and 2) |
| 55 - 60 hours/week: EUR 0,30 (Tariff 3) | 35-60 hours/week: EUR 0,30 (Tariff 3) |
| >60 hours: EUR 6 (full tariff) | >60 hours: EUR 6 (full tariff) |
| Main meal: free of charge (5 meals per week) | Main meal: free of charge (5 meals per week) |

*20 hours is the maximum possible program and is assumed in the TaxBEN model.

The TaxBEN model assumes up to 40 hours of care per week, for 52 'school' weeks per year. Thus the annual fee for full time care is calculated as:

$$(20 \times 0 + 20 \times 0) \times 52 + (5 \times 0) \times 52 = \text{EUR } 0$$

5.1.1. Discounts for part-time usage

Fees charged to parents depend on the number of hours used, as described in the table and box above.

5.2. Fee discounts and free provision

Two different measures are in place in order to provide free education and childcare:

The Multilingual Education Program provides 20 hours of free childcare per week for 46 weeks per year. This policy is modelled in TaxBEN.

The Free non formal education childcare (*Mesures de gratuité dans l'éducation non formelle*): Since September 2022, free meals and free childcare are provided for school-

¹⁴ This assumption is in line with the TaxBEN methodology, to ensure cross-country comparability.

aged children during school periods¹⁵. This policy is not modelled in TaxBEN as care costs for school-age children are not considered.

The remainder of this section only describes free provision under the Multilingual Education Program.

5.2.1. *Eligibility*

Multilingual Education Program: All children aged from 1 to 4 years, not full time at school and attending a collective childcare facility.

5.2.2. *Amount of discount or free provision*

Multilingual Education Program: In the framework of the multilingual education program, all children aged from 1 to 4 years, not full time at school and attending a collective childcare facility are eligible, with effect from October 2017, for 20 hours' free attendance per week, over a period of 46 weeks per year. Assistants parentaux (APs, i.e. childminders) do not form part of this programme, because the type of care they offer cannot fulfil the conditions required for multilingual education (one person for each language).

The multilingual education program can be combined with the financial support provided in the context of the CSA. Thus, the free hours of childcare which households having an income less than or equal to three times the minimum social wage are entitled to, are added to the 20 hours' free attendance.

5.2.3. *Variation by income*

No

5.3. *Child-care benefits for formal centre-based care*

Code in the OECD tax-benefit model: [\[cc_benefit\]](#)

There is no cash benefit scheme for parents whose children are registered in a childcare system.

5.4. *Child care allowance for children not using child care centers*

None.

5.5. *Tax concessions for childcare expenditures*

The taxpayer can also obtain a standard abatement for childminding expenses of EUR 5 400 per year per family. In this case, the taxpayer has to renounce to the abatement for inevitable extraordinary charges for childcare expenses. The standard abatement

¹⁵ Children subject to compulsory schooling (4 years old by September 1st), who attend primary education or its equivalent (early childhood education is not covered) are eligible for free care and meals when attending all types of education and childcare facilities during school periods on Monday to Friday, 7am to 7pm. In addition, during school holidays children from families with income up to twice the social minimum wage receive free meals. The CSA scale applies in all other circumstances. The aim is to enhance access to non-formal education during the school year to the entire population of schoolchildren by making it free for all, as is the case for formal education, and to make non-formal education accessible during school holidays also to children whose parents have a low income.

cannot exceed the amount of the real expenses nor EUR 450 per month. (See 8.1.1. Tax allowances)

5.5.1. Eligibility

Children must be less than 14 years old and be in a childcare structure accredited by the State.

5.5.2. Maximum amount

EUR 5 400/ year. The maximum amount applies to the whole family (in case of expenses for several children) and not per child.

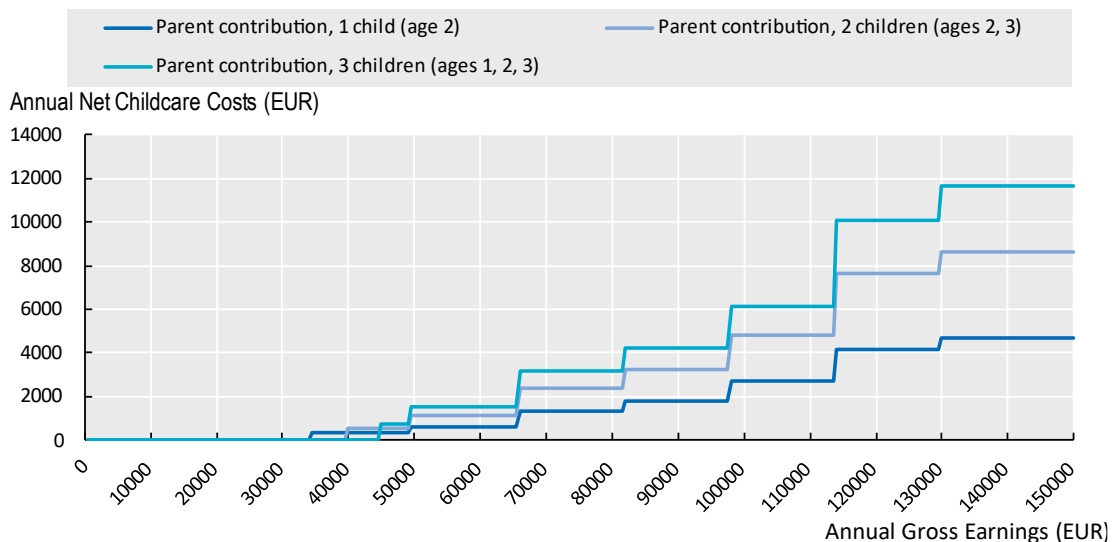
5.5.3. Variation by income

None.

5.5.4. Impact on overall income tax calculation

It reduces the adjusted taxable income on which tax rates are applied.

Figure 4 – Net cost of childcare by gross earnings



Note: Figures for lone parent aged 40. Children attend care full time (40 hours per week) and are eligible for 20 hours of MEP per week. Net costs presented are before tax deductions.

6. In-work benefits

Code in the OECD tax-benefit model: [\[IW\]](#)

A tax credit for employees exists (see section 8.1.4.). Nevertheless, this tax credit does not exclusively target employees. Taxpayers with replacement income like unemployment benefit or pension are also eligible to such a tax credit.

7. Social security contributions and payroll taxes

7.1. Social security contributions (Cotisations sociales)

Variable names: [\[SOCSEC_p\]](#); [\[SOCSEC_s\]](#); [\[SSCR_p\]](#); [\[SSCR_s\]](#)

Wage earners pay 3,05% sickness scheme contributions and 8% pension scheme contributions on their gross earnings between EUR 2 387.40 per month (28 648.80 EUR per year) and EUR 11 936.98 per month (143 244.00 EUR per year). For replacement earnings, sickness insurance contribution rate is 2,80%.

Long term care insurance is financed by special contribution of 1,4% levied on professional earnings, replacement earnings and income from property (an amount of 1/4 of the social minimum reference salary is not taken into account for 596.85 EUR per month in 2023).

Compulsory social security contributions to schemes operated within the government sector in 2023

| Type of household | Employer's share (%) | Employee's share (%) | Ceiling on contributions (in EUR/month) |
|----------------------------------------|--------------------------------|----------------------|------------------------------------------------------|
| a) Pension and disability insurance | 8 | 8 | 11 936.98 |
| b) Health insurance | 3,05 | 3,05 | Same ceilings as a) |
| payment in kind | 2,80 | 2,80 | |
| sickness benefit | 0,25 | 0,25 | |
| c) Dependency insurance | | 1,40 | No ceiling, but monthly disregarded amount of 596.85 |
| d) Health in the workplace | 0,14 | | |
| e) Accident insurance ¹⁶ | 0,75 ¹⁷ | | Same ceilings as a) |
| f) Employers' mutual insurance company | 1,90% on average ¹⁸ | | Same ceilings as a) |

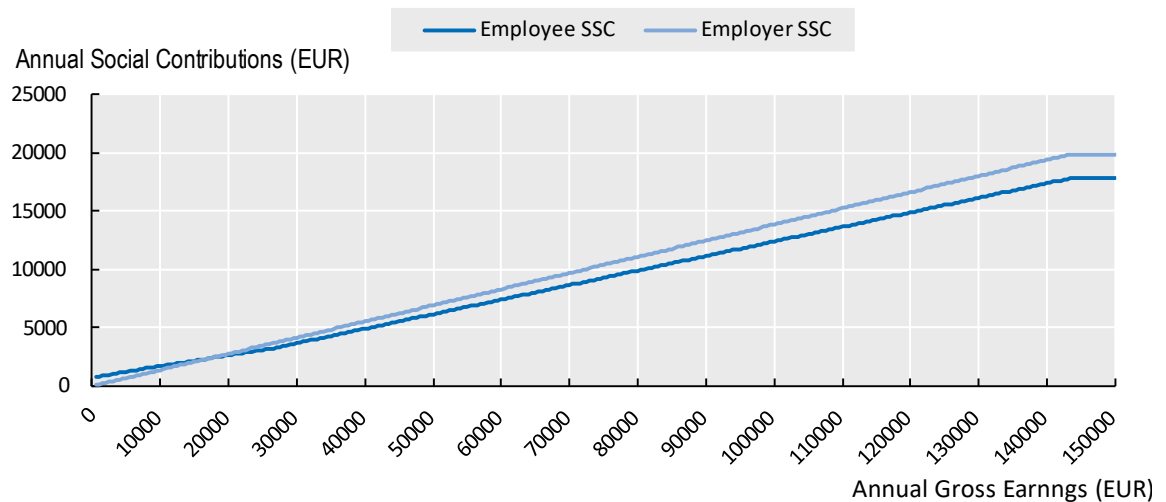
7.2. *Non-tax compulsory employee payment (Cotisations en faveur de la Chambre des salariés)*

All employees and retirees in Luxembourg (with the exception of public officials) have to belong to the Chamber of Employees ("Chambre des salariés") regardless of their nationality or place of residence. Annual dues are automatically withheld by the employer or by the Pension Insurance which allow the Chamber to carry out its various activities and missions. In 2023 the contributions is at EUR 35/year for every employee who earns a gross monthly salary of EUR 300 or more and this contribution is included in the calculations. There are reduced contributions of EUR 10 for employees with lower levels of earnings and EUR 4 for apprentices. This non-tax compulsory employee payment is withheld by the employers jointly with the withholding tax on salaries.

¹⁶ From 2011 on, the accident insurance contribution rate is the same for all risk classes.

¹⁷ Since 2019, this rate is multiplied by a bonus/malus factor.

¹⁸ Rate varies according to the previous financial absenteeism rate of the firm.

Figure 5 – Social Security Contributions by gross earnings

Note: All figures for 40-year old one-earner couple with 2 children (ages 4 and 6).

8. Taxes

Luxembourg has a progressive tax scheme with 23 rates varying between 0 and 42 per cent since 2017. Tax calculation is based on the splitting method. Spouses and partners are taxed jointly on their income. Since 2018, married couples have the option to fill separate tax returns.

8.1. Personal income tax (*Impôt sur le revenu des personnes physiques*)

Code in the OECD tax-benefit model: [\[INC_TAX\]](#)

8.1.1. Tax allowances

- Professional expenses are deductible with a minimum of EUR 540. This minimum is deductible by default if there are no greater expenses. For income from REVIS (SA), the tax allowance on professional expenses amounts to EUR 300. Someone who is receiving SA and is working at the same time is eligible for the tax allowances of EUR 540 and 300. In this case, the total tax allowance amounts to EUR 840. However, the amount of each tax allowance cannot exceed the amount of the related income.
- Like other taxpayers, wage earners having no special expenses (interest charges, insurance premiums or contributions other than for social security) may take a standard deduction of EUR 480 for special expenses. Social security contributions are deductible in their entirety, except long-term care insurance.
- If both spouses have earned income (including unemployment benefit income) and are taxed jointly, they qualify for an earned income allowance of EUR 4500 per year. The taxpayer obtains, on request, abatement on the taxable income for childcare expenses (abatement for inevitable extraordinary charges). The amount of the abatement corresponds to the part of the extraordinary charges exceeding the following percentages of taxable income.

| Taxable income (EUR per year) | Class 1 | Class 1A or Class 2 | | | | | |
|----------------------------------|---------|---------------------|----|----|----|----|---|
| | | Number of children | | | | | |
| | | 0 | 1 | 2 | 3 | 4 | 5 |
| < 10 000 | 2% | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 000 – 20 000 | 4% | 2% | 0 | 0 | 0 | 0 | 0 |
| 20 000 – 30 000 | 6% | 4% | 2% | 0 | 0 | 0 | 0 |
| 30 000 – 40 000 | 7% | 6% | 4% | 2% | 0 | 0 | 0 |
| 40 000 – 50 000 | 8% | 7% | 5% | 3% | 1% | 0 | 0 |
| 50 000 – 60 000 | 9% | 8% | 6% | 4% | 2% | 0 | 0 |
| > 60 000 | 10% | 9% | 7% | 5% | 3% | 1% | 0 |

- The taxpayer can also obtain a standard abatement for childminding expenses of EUR 5 400 per year. In this case, the taxpayer has to renounce to the abatement for inevitable extraordinary charges for childcare expenses. The standard abatement cannot exceed the amount of the real expenses nor EUR 450 per month.

The following tax credits are not modelled in TaxBEN:

- The taxpayer can also obtain an allowance for extraordinary expenses for children not living in the household of EUR 4 422/year.
- Mortgage interest paid on an owner-occupied dwelling is deductible up to EUR 2 000/year in the first 5 years; up to EUR 1 500/year in the 5 following years; and up to EUR 1 000/year for the remaining term of the loan.
- The tax allowance for home purchase saving plans is EUR 1 344/year for young taxpayers (under 40 years old) and EUR 672/year for the other taxpayers.
- The tax allowance for complementary pension schemes is limited to EUR 3 200/year.

8.1.2. *Tax base*

Taxable income is rounded to the nearest lower multiple of EUR 50 before applying the tax schedule.

8.1.3. *Income tax schedule*

Income tax is determined on the basis of the following schedule (amounts in EUR/year):

| Tax rate | Taxable income/year |
|-----------------------------------------|----------------------------|
| 0 % for the portion of income less than | 11 265 |
| 8 % for the portion of income between | 11 265,00 and 13 137 ,00 |
| 9 % for the portion of income between | 13 137 ,00 and 15 009 ,00 |
| 10 % for the portion of income between | 15 009 ,00 and 16 881 ,00 |
| 11 % for the portion of income between | 16 881 ,00 and 18 753 ,00 |
| 12 % for the portion of income between | 18 753 ,00 and 20 625 ,00 |
| 14 % for the portion of income between | 20 625 ,00 and 22 569 ,00 |
| 16 % for the portion of income between | 22 569 ,00 and 24 513 ,00 |
| 18 % for the portion of income between | 24 513 ,00 and 26 457 ,00 |
| 20 % for the portion of income between | 26 457 ,00 and 28 401 ,00 |
| 22 % for the portion of income between | 28 401 ,00 and 30 345,00 |
| 24 % for the portion of income between | 30 345,00 and 32 289 ,00 |
| 26 % for the portion of income between | 32 289 ,00 and 34 233 ,00 |
| 28 % for the portion of income between | 34 233 ,00 and 36 177 ,00 |
| 30 % for the portion of income between | 36 177 ,00 and 38 121 ,00 |
| 32% for the portion of income between | 38 121 ,00 and 40 065 ,00 |
| 34% for the portion of income between | 40 065 ,00 and 42 009 ,00 |
| 36% for the portion of income between | 42 009 ,00 and 43 953 ,00 |
| 38% for the portion of income exceeding | 43 953 and 45 897 |
| 39% for the portion of income between | 45 897 and 100 002 |
| 40% for the portion of income between | 100 002 and 150 000 |
| 41% for the portion of income between | 150 000 and 200 004 |
| 42% for the portion of income exceeding | 200 004 |

- Single persons' taxable income (class 1) is taxed directly using the schedule.
- For couples, taxable income is first halved. The tax liability is then calculated as for single persons, but the tax actually paid is double this amount (tax class 2).
- For widow(er)s, taxpayers with a dependent child allowance and persons over 64 years of age (class 1A), tax is calculated as follows: the schedule is applied to adjusted taxable income reduced by half of the difference between that amount and EUR 45 060/year, with the marginal tax rate capped at 39 %, for the portion of income between EUR 37 842/year and EUR 100 002/year, at 40% for the portion of income between EUR 100 002/year and EUR 150 000/year, 41% for the portion of income between EUR 150 000/year and EUR 200 004/year and at 42% for the portion of income exceeding EUR 200 004/year.

- Income tax is rounded down to the nearest EUR.

8.1.4. Tax credits

Tax credit for employees

Code in the OECD tax-benefit model: [\[WORK_CR\]](#)

The tax credit for employees, self-employed people and pensioners increases progressively until it is capped at EUR 696 per year for taxpayers earning between EUR 11 265/year and EUR 40 000/year. For taxpayers earning between EUR 40 000/year and 80 000/year, the tax credit will decline progressively. Taxpayers earning more than EUR 80 000/year will not benefit anymore from the tax credit.

The formula to apply for employees are as follows:

- For an annual gross wage (sickness, maternity, parental leave and unemployment benefits are considered like a wage in the personal income tax law) between EUR 936/year and EUR 11 265/year, the annual tax credit is equal to EUR $[396 + (\text{annual gross wage} - 936) * 0,029]$ /year;
- For an annual gross wage between EUR 11 266/year and EUR 40 000/year, the annual tax credit is equal to EUR 696 per year;
- For an annual gross wage between EUR 40 001/year and EUR 79 999/year, the annual tax credit is equal to EUR $[696 - (\text{annual gross wage} - 40 000) * 0.0174]$ /year.

The “allocation d’inclusion” from the Social inclusion income (REVIS) is not eligible for this tax credit

The tax credit is individual. Thus, if there are two wage earners in a family, both of them receive a tax credit. Further, this tax credit is refundable (non-wastable).

Tax credit for single parents with children

Code in the OECD tax-benefit model: [\[LP_CR\]](#)

The tax credit for single parents with children is equal to EUR 2 505 per year for taxpayers with taxable income up to EUR 60 000/year. For taxpayers with taxable income between EUR 60 000/year and EUR 105 000/year, the tax credit declines progressively to EUR 750: for them, the formula to apply is as follows: EUR $[2 505 - (\text{taxable income} - 60 000 * (0.039))]$ /year. For taxpayers with taxable income more than EUR 105 000/year, the tax credit is equal to EUR 750/year. This tax credit is refundable (non-wastable).

Tax credit for social minimum wage earners

Code in the OECD tax-benefit model: [\[SM_CR\]](#)

In 2019, the tax credit for social minimum wage earners was introduced. For 2023, the tax credit is slightly modified. It is fixed to EUR 70 per month for employees in a full-time job earning a monthly gross wage (sickness, maternity, parental leave and unemployment benefits are considered like a wage in the personal income tax law) between EUR 1 800 and EUR 3 000. For employees in a full-time job with monthly gross wages between EUR 3 000 and EUR 3 600, the tax credit declines progressively to EUR 0: for them, the formula to apply is as follows: EUR $[(70/600) * (3600 - \text{monthly wage})]$. For employees in a part-time job, the gross wage is first estimated as if they work full-time (multiply by 2 if employees work 50% of full-time hours) to verify if they are entitled to the tax credit applying the same rules than the ones for the employees in a full-time job. For employees in a part-time job, the tax credit is proportional to the

working time. Employees in a full-time job with monthly gross wages higher than EUR 3 600 or employees in a part-time job (50% of full-time hours) with monthly gross wages higher than EUR 1 800 will not benefit anymore from the tax credit. This tax credit is refundable (non-wastable) and comes on top of the already existing tax credit for employees.

Energy tax credit (*Crédit d'impôt énergie*):

Code in the OECD tax-benefit model: [\[Energy_CR\]](#)

In order to support taxpayers in times of high inflation and rising prices, a new tax credit called “Energy tax credit” was introduced for the period between July 2022 and March 2023 for employees, self-employed people and pensioners. The tax credit is fixed at EUR 84 per month for taxpayers earning between EUR 78 and EUR 3 667 per month. Between EUR 3 667 and EUR 5 667, the amount declines progressively from EUR 84 per month to EUR 76 per month. Between EUR 5 667 and EUR 8 334, the amount declines progressively to 0.

For the same period, adult person receiving the social inclusion benefit (REVIS) who do not benefit from the energy tax credit benefit from an equivalent tax credit fixed at EUR 84 per month. The equivalent tax credit will be extended until end 2024.

The Energy tax credit is refundable (non-wastable).

Economy Tax Credit (*Crédit d'impôt conjoncture*):

Code in the OECD tax-benefit model: [\[Econ_CR\]](#)

For the year 2023, a temporary new tax credit is put in place for employees, self-employed people, and pensioners to compensate for the loss of purchasing power due to rising inflation. The tax credit is paid monthly and is based on gross wages (including unemployment benefit). The amounts are specified based on the amount a taxpayer would have received if the income tax schedule had been adjusted to two index tranches. The tax credit is refundable (non-wastable). It is calculated as follows:

| Wages ¹⁹ (EUR per month) | Tax credit (EUR per month) |
|-------------------------------------|------------------------------------------|
| 0 to 1125 | 0 |
| 1126 to 1250 | $0 + (\text{Wage} - 1125) * (4 / 125)$ |
| 1251 to 2100 | $4 + (\text{Wage} - 1250) * (3 / 850)$ |
| 2101 to 4600 | $7 + (\text{Wage} - 2100) * (37 / 2500)$ |
| 4601 to 9500 | 44 |
| 9501 to 9925 | $44 + (\text{Wage} - 9500) * (4 / 425)$ |
| 9926 to 14175 | 48 |
| 14176 to 14916 | $48 + (\text{Wage} - 14175) * (3 / 356)$ |
| More than 14916 | 54.25 |

8.2. *Solidarity surtax* (*Impôt de solidarité*)

Variable names: [\[SURTAX\]](#)

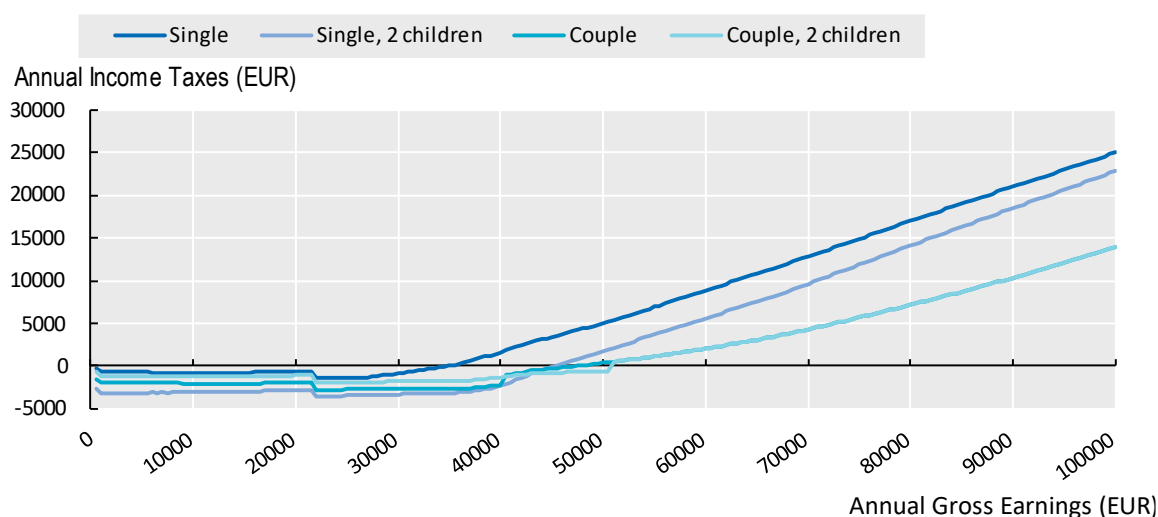
Income tax as determined by the applicable schedules is subject to a 7 % “solidarity” surtax to finance the unemployment insurance scheme. The rate is 9% for the taxable

¹⁹ As a reminder, unemployment benefits are assimilated to wages in the personal income tax.

income exceeding 150.000€/year (tax classes 1 and 1a), respectively 300.000€/year (tax class 2).

Solidarity surtax is rounded down to the nearest EUR.

Figure 6 – Income Taxes by gross earnings



Note: All adults are 40 years old. Children, if present, are 4 and 6. In case of couples, spouse does not work and receives SA, which is included in taxable income.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Luxembourg in 2023 (see figure below). TaxBEN by default produces the following output: 1) net household incomes (**black line**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (users are free to select many of these circumstances). The model and the related web calculator is accessible from the [project website](#). The figure below shows output for a two-adult family with two children (adults are both 40 years old whereas children are 4 and 6 years old respectively) and four different scenarios:

By percentage of the average wage (**Panel A**);

By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);

By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);

By previous employment record (in months), for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas show the following household income components: **GROSS** = gross earnings; **UB** = unemployment benefits; **SA** = social assistance / guaranteed minimum income benefits; **HB** = housing benefits; **FB** = family benefits; **IW** = in-work benefits; **SSC** = social security contributions; **IT** = income tax. Note that these components may be the result of the aggregation of more than one benefit/tax into a composite category. Please refer to the sections above for the benefits/taxes included in each category.

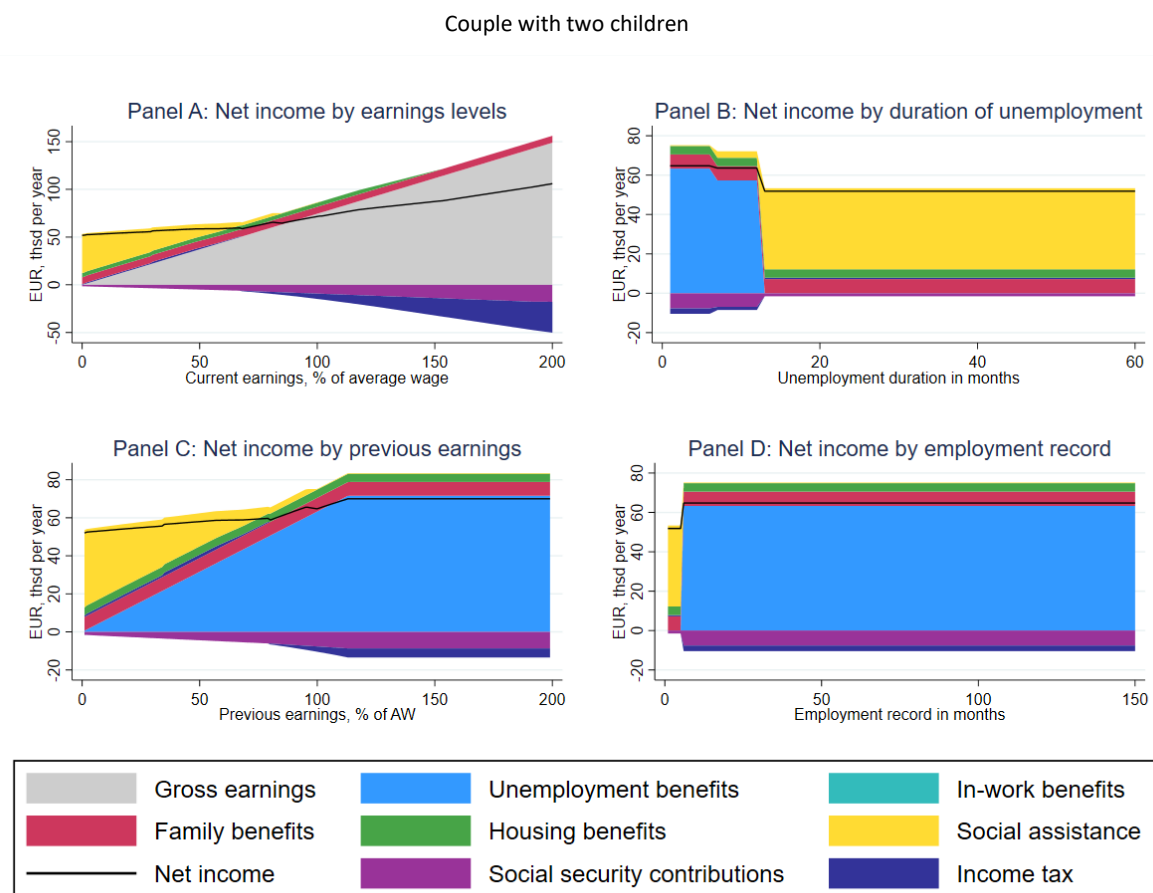
Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as

active job-search or being available for work), these requirements are assumed to be met.

Panel A assumes that one adult family member (the so-called ‘second adult’ using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (the so-called ‘first adult’) is employed full-time throughout the entire year at different earnings levels ranging between 0 and 200% of the average wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits (again, e.g. because they have expired) but claiming social assistance or guaranteed minimum income benefits, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The x-axis in Panel B measures the time of benefit receipt, starting from the first month. The x-axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2nd month of unemployment benefit receipt. In Panel B and D, previous earnings are assumed to be equal to the average wage.

Figure 7. Selected output from the OECD tax-benefit model



Source: Calculations based on the OECD tax-benefit model, 2023. Average wage used in calculations is EUR 74 477.