



UNION DES ENTREPRISES
LUXEMBOURGEOISES

2024 Edition

THE PROFIT-PARTICIPATING BONUS

A guide for employers



The profit-participating bonus was introduced on 1 January 2021. This document sets out the main terms and conditions of implementation and also outlines the various subsequent legislative changes. It is intended to guide Luxembourg companies in the application and proper implementation of these provisions.

A number of changes to the profit-participating bonus regime were introduced as part of the July 2024 tax package (“Entlaaschtungs-Pak”), which is aimed at strengthening competitiveness and purchasing power. These changes are presented in this document. The tax package is still at the draft stage; once adopted, the relevant measures will take effect from 1 January 2025.

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This document will be updated regularly to take into account any new developments.

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This document is intended merely for information purposes and does not claim to be exhaustive. The information contained in this document is general in nature and is not intended to address the specific situation of a particular individual or company. This information cannot and should not be used as the basis for decision-making without seeking the prior advice of a professional and without a detailed analysis of each situation.

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WHAT IS THE PROFIT-PARTICIPATING BONUS?

The profit-participating bonus regime, which is set out in article 115.13a) of the LITL, has been in place since 2021 and has recently been amended.

Under this scheme, eligible employers may grant some of their employees a bonus, which – provided certain conditions are met – will benefit from a personal income tax exemption of 50%. This profit-participating bonus helps to retain and reward company employees for their performance.

The granting of the profit-participating bonus is optional for the employer. They are free to allocate the bonus at their own discretion, and it can be paid either equally to all company employees or according to freely-defined performance criteria.

The employee is exempt from personal income tax on 50% of the amount paid (when the conditions for application of the scheme are met). However, the profit-participating bonus remains fully taxable for social security purposes.

For the employer, the profit-participating bonus is deductible as an operating expense.

WHO IS ELIGIBLE?

Eligibility criteria for employees:



- Must be employed in Luxembourg
- Must be affiliated to the Luxembourg social security scheme (or a foreign scheme under certain conditions) on a compulsory basis.

Eligibility criteria for employers:



- Must generate a commercial profit from a commercial, agricultural/forestry or professional activity
- Must hold accrual accounts for the year in which the bonus is granted (year N) and for the previous year (year N-1).

HOW MUCH PROFIT-PARTICIPATING BONUS CAN YOU GRANT?

For your employees to benefit from this preferential tax regime, the profit-participating bonus must be allocated in accordance with the two thresholds set out below.

If the profit-participating bonus exceeds these thresholds, the excess amount will not qualify for the preferential tax treatment (i.e. the 50% income tax exemption for the employee).

- **At company level (“**employer ceiling**” or “**overall ceiling**”):** The total amount of the bonus allocated to all company employees may not exceed **7.5%** of the company’s **positive result*** for operating year N-1.

Example

A Luxembourg company made a profit of **€ 450,000** in 2024 and wishes to grant a bonus to one of its employees in 2025.

The maximum amount of profit-participating bonus that the company can grant its employee for 2025 under the scheme is:

$$450,000 \times 7.5\% = \mathbf{€ 33,750}$$

If the company decides to grant a profit-participating bonus to several employees, this amount of € 33,750 would be the overall ceiling applicable to all employees.

- **At employee level (“**employee ceiling**” or “**individual ceiling**”):** The amount of profit-participating bonus benefiting from the preferential tax regime may not exceed **30% of the employee’s gross annual remuneration**** (before including benefits in kind and in cash) for the same year N.

Example (cont’d)

The employee of this company earns a gross annual salary of **€ 55,000**. The maximum amount of profit-participating bonus they can receive for 2025 under this scheme is:

$$55,000 \times 30\% = \mathbf{€ 16,500}$$

As this amount is less than € 33,750, the first ceiling (employer ceiling) will not limit the amount that can be allocated to the employee in this case.

It should be noted that these 7.5% and 30% ceilings apply to profit-participating bonuses granted from 1 January 2025 only. Previously, these ceilings were set at 5% and 25%, respectively.

* See page 7 for definition of positive result taken into account.

** See page 7 for definition of employee remuneration taken into account.

FREQUENTLY ASKED QUESTIONS

1. *When can I grant a profit-participating bonus to my employees?*

The profit-participating bonus is calculated on the basis of the employee ceiling for year N and paid in the same year (see previous page). **The employer is free to pay the bonus at any time during the year in question.** To do so, the 30% employee ceiling described above must be determined on the basis of the employee's **foreseeable** gross annual remuneration for the year of payment. If necessary, an adjustment will be made in the event of any subsequent change in the amount of employee remuneration for the relevant year.

2. *What happens if my employee leaves the company during the year in which they benefited from the profit-participating bonus?*

In the event of a change in the employee's employment relationship during the year (e.g. retirement, termination of the employment contract at the employee's or the employer's initiative, maternity leave, reduction in working hours), the employer will have to **recalculate the amount of tax-free bonus** on the basis of the annual salary actually received by the employee at the time of departure or following the change in the employment relationship.

3. *My company made a loss in the previous financial year. Can I still grant a profit-participating bonus to my employees under the preferential tax regime?*

No, in this case, you won't be able to grant a profit-participating bonus to your employees, since the employer's ceiling will be equal to zero (due to the absence of a profit for N-1). The situation is different, however, if your company is part of a tax-consolidated group (see below and page 10).

4. *My company is part of a group of companies based in Luxembourg. Can I calculate the employer's ceiling on the basis of the group's consolidated income?*

No, in this case you should in principle calculate the employer ceiling solely on the basis of your company's positive result, unless your company is part of a group benefiting from the tax consolidation regime.

If your company is part of a tax-consolidated group, you can calculate the 7.5% employer ceiling on the basis of the algebraic sum of the positive results of the members of the tax-consolidated group in N-1 (see page 10 "Focus: profit-participating bonus and tax-consolidated groups").

5. *I am part of a group of companies. As an employer, can I grant a profit-participating bonus to an employee of another company in the group?*

No, you can only grant profit-participating bonuses to employees of your company. For the purposes of granting the profit-participating bonus, the employer is defined as the one registered as such in the ACD files for the relevant employee (i.e. the one whose national identification number appears in the "Emploi" (employment) section of the employee's tax form).

CALCULATING THE BONUS: REMUNERATION & RESULTS TAKEN INTO ACCOUNT

What is the employee “gross annual remuneration” that must be taken into account to determine the profit-participating bonus that may be paid under this scheme?

The employee’s gross annual remuneration (before inclusion of benefits in kind and in cash) comprises the **regular salary** and any additional elements making up this regular salary, such as **overtime** and **periodic awards**. On the other hand, cash benefits (such as bonuses, 13th month salary payment, interest bonuses, travel expenses, expense reimbursements) are excluded. Similarly, replacement income paid by the CAE or CNS, for example, is excluded. Furthermore, in the case of an activity partly carried out by the employee abroad on behalf of the company, and for which part of the remuneration is not taxable in Luxembourg by virtue of a tax treaty, the entire remuneration is taken into account when calculating the employee ceiling.



Employee

What is the “positive result for the operating year” to be used to calculate the profit-participating bonuses of your employees?

The positive result for the operating year is defined as the **net profit** as shown on the last balance sheet (N-1 – see profit for the year shown in account 142 – profit for the year in Lux GAAP) closed immediately prior to the operating year in which the profit-participating bonus is allocated to the eligible employee (year N). For a commercial company, this is the commercial profit after deduction of taxes.



Employer

CASE STUDY

A company has made a **profit of € 150,000** in 2024. In 2025, it plans to pay a bonus to its employee Julie to reward her for her performance. The company is wondering how much of the bonus will qualify for preferential tax treatment of the profit-participating bonus.

Julie's total gross remuneration for 2025 is expected to be € 58,000, broken down as follows:

- Gross annual salary: € 48,000
- Benefit in kind from car: € 6,000
- 13th month salary payment: € 4,000

Analysis

Granting the profit-participating bonus

The company may grant Julie a profit-participating bonus, determined as follows:

- 1 Computation of the employer ceiling:** $150,000 \times 7.5\% = \text{€ } 11,250$
- 2 Computation of the employee ceiling:** $48,000 \times 30\% = \text{€ } 14,400$
(as only Julie's foreseeable gross annual salary will be taken into account when calculating the employee ceiling)
- 3 Computation of the (maximum) amount of qualifying profit-participating bonus** (i.e. eligible for preferential tax treatment):
 $\text{€ } 14,400 > \text{€ } 11,250 = \text{€ } 11,250$ (50% of which will be tax-exempt for the employee)

Julie will therefore receive a bonus of **€ 11,250** (half of which, i.e. € 5,625, will be exempt from her personal income tax).

Subsequent departure from the company

Julie received her profit-participating bonus of € 11,250 in June 2025. However, she decided to leave the company on 30 September 2025. As a result, her gross annual remuneration for 2025 was only € 36,000.

The company will therefore have to recalculate the 30% employee ceiling on the basis of the actual remuneration paid to Julie during 2025.

- Amount of profit-participating bonus paid to Julie: € 11,250
- Recalculation of (maximum) eligible profit-participating bonus:

$$36,000 \times 30\% = \text{€ } 10,800 \text{ (of which 50\% will be tax-exempt)}$$

Consequently, as a result of her departure from the company during the year, Julie will only be eligible under the preferential tax regime for an amount of € 10,800 (half of which, i.e. € 5,400, will be exempt from income tax). The delta of € 5,850 (i.e. € 11,250 - € 5,400) will be fully subject to income tax.

The company will therefore have to make the necessary adjustments in terms of withholding tax on the salary at the time of Julie's departure and in accordance with common payroll law provisions.

REPORTING OBLIGATIONS

Upon payment, the employer must declare the profit-participating bonus on the employee's monthly payslip. This declaration must be made in accordance with the ordinary rules governing withholding taxes on salaries.

The employer must also provide the relevant RTS office with a list of the names of employees receiving the profit-participating bonus (in the format provided by the ACD) at the time the bonus is made available.

At the ACD's request, the employer may also be required to provide supporting documents to prove that the conditions for application of the scheme have been met.

The forms to be completed are available on the ACD's website under the heading "Échanges électroniques" (electronic exchanges).

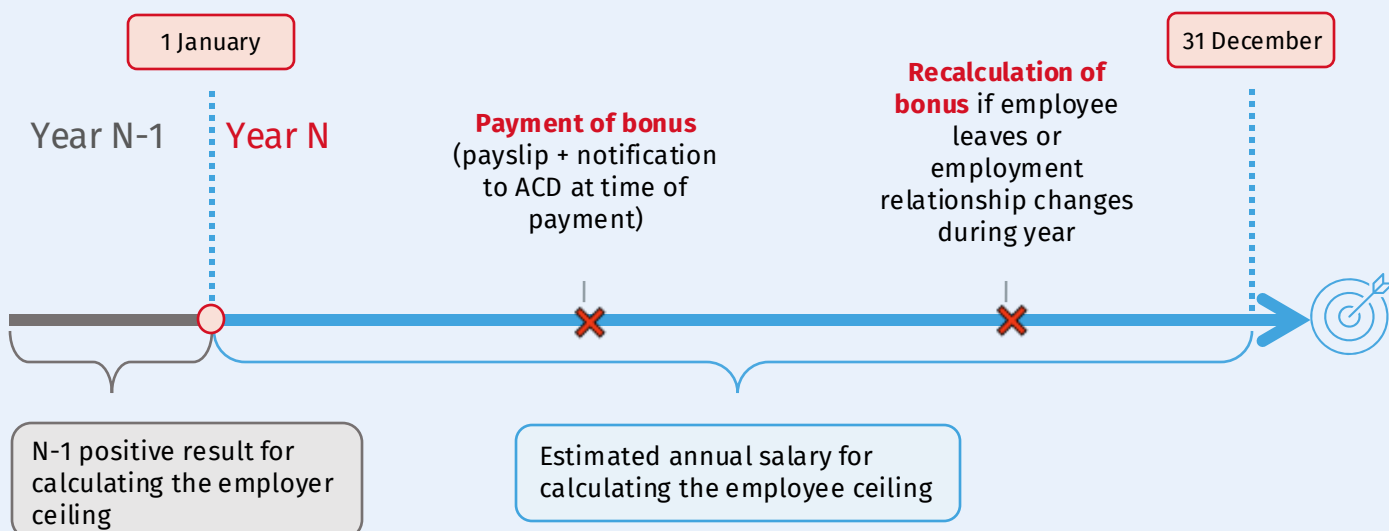
Are there any reporting obligations for the employee in connection with benefiting from a profit-participating bonus?

No. The employee has no specific/additional reporting obligations to fulfil in order to benefit from the preferential tax regime for the profit-participating bonus paid to them.

What are the consequences if the employer fails to comply with its reporting obligations?

If the aforementioned reporting obligations are not fulfilled by the employer, the ACD may call into question the application of the preferential tax regime.

Timeline at a glance



FOCUS: PROFIT-PARTICIPATING BONUS AND TAX-CONSOLIDATED GROUPS

As of 1 January 2023, the profit-participating bonus regime includes specific provisions for companies forming part of a tax-consolidated group within the meaning of article 164bis LITL.

Tax-consolidated groups can now calculate the 7.5% employer threshold on the basis of the positive algebraic sum of the results of the members of the tax-consolidated group in N-1. This overall amount will serve as a reference for calculating the profit-participating bonuses that may be allocated to all employees of the companies in the tax-consolidated group.

A group of companies may be considered an employer for the purposes of the profit-participating bonus if it meets the following conditions:

- The group of companies is consolidated for tax purposes;
- All members of the tax-consolidated group must keep their accounts in accordance with the same accounting standard.

The tax-consolidated group of companies must jointly notify the RTS office of the integrating parent company or the integrating subsidiary of the information concerning the beneficiary employees and the applicability of the scheme (see page 9).

Example: Calculation of employer ceiling for tax-consolidated group

A group of Luxembourg companies A, B, C and D form a tax-consolidated group. The group of companies wishes to determine the amount of profit-participating bonus that each company in the group can grant to its employees for 2025.

The results of each company for 2024 are as follows:

Company A: € 150,000
 Company B: € -20,000
 Company C: € 450,000
 Company D: € 0

Analysis

Only the positive results of group members (i.e. the results of A and C) will be taken into account when calculating the employer's ceiling for the profit-participating bonus. The maximum total amount of profit-participating bonuses that the group can pay to its employees is therefore:

$$(150,000 + 450,000) \times 7.5\% = \mathbf{€ 45,000}$$

Secondly, the amounts of profit-participating bonuses to be allocated by each company in the tax group to its employees must comply with the 30% employee ceiling, as described previously (see page 5).

FURTHER INFORMATION

Useful links :

[Law of 19 December 2020](#)

[Bill of law no. 8414 amending the profit-participating bonus with effect from 1 January 2025](#)

[Circular](#)

Newsletters of the ACD:

[26 October 2020](#)

[11 February 2021](#)

[22 July 2024](#) (bill of law no. 8414 amending the profit-participating bonus with effect from 1 January 2025)

[FAQ](#)

[User guide](#)

[Dedicated page on the ACD website](#)

[Notification form](#)

Examples of filled-in forms:

- [Fiscally correct values](#)
- [Fiscally incorrect values](#)
- [Fiscally incorrect values ex. 2](#)

[Tax-consolidation regime](#)

This document is available on the website www.uel.lu

Glossary



ACD: Luxembourg Inland Revenue (Administration des contributions directes)

CAE: Children Future Fund (Caisse pour l'avenir des enfants)

CNS: National Health Fund (Caisse nationale de santé)

LITL: Luxembourg Income Tax Law

Lux GAAP: Luxembourg Generally Accepted Accounting Principles

RTS: Wages and salaries withholding tax (Retenue d'impôt sur les traitements et salaires)





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