

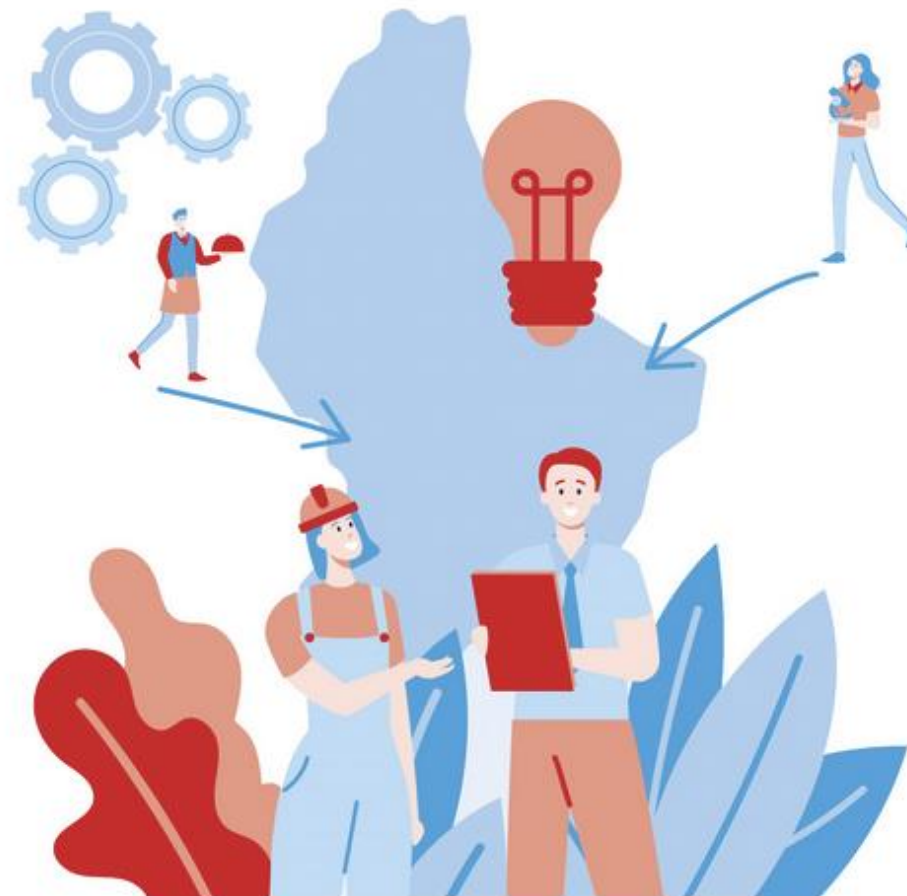
Employers: Discover the new tax incentives for your employees for 2025

Presentation support used during the webinar on 11.02.2025 exclusively organized by and for UEL members. For more information on the subject, feel free to contact your usual contact person with one of our members.

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Introduction



Talent attraction at the heart of concerns



**Accord de coalition
2023-2028**

**« Lëtzebuerg fir d'Zukunft
stärken »**

The 5 new tax measures for talents

- 1 **Young employee bonus**: exemption of 75% of the bonus (capped at max. 5,000 €/year and rem. capped at max. 100,000 €/year)
- 2 **Rental allowance**: exemption of 25% of the allowance (capped at max. 1,000 €/month)



- 3 **Profit-participating bonus**: exemption of 50% subject to the following limits:
 - Threshold/company: max. 7,5% of the profit of the previous year
 - Bonus/employee: max. 30% of the annual gross remuneration
- 4 **Impatriate regime**: exemption of 50% of the annual gross remuneration (with a cap of max. 400,000 €/year)
- 5 **Tax credit for overtime**: tax credit of 25% (with a cap of max. 700 €/year) above 1,200 €

1

The new young employee bonus



What is the young employee bonus?

The young employee bonus tax regime (article 115.13d of the Luxembourg Income Tax Law – “LITL”)) was introduced to allow employers who wish to grant their employees under 30 years old and holding their first job in Luxembourg a bonus benefiting from a favorable tax regime at their level.

=> The young employee bonus is exempt from income tax for the employee, up to 75% of its amount.

This bonus aims to reduce the tax burden on young employees at the beginning of their careers by helping them start their professional lives.

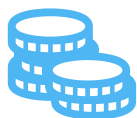
What are the application conditions?



Eligible employees

Employees eligible for this incentive are those who:

- ✓ Work in Luxembourg,
- ✓ Are under 30 years old at the beginning of the tax year,
- ✓ Have a first permanent employment contract signed from 1.01.2025 with an employer established in Luxembourg (or established abroad with a permanent establishment in Luxembourg),
- ✓ Earn an annual gross remuneration not exceeding €100,000 (before incorporation of benefits in kind and in cash), and
- ✓ Stay with the same employer as long as they wish to benefit from the bonus, with a maximum of five years.



Amount of eligible young employee bonus

The maximum annual eligible amount of the young employee bonus (determined for full-time employment) for exemption is:

- ✓ €5,000 for an annual gross remuneration < €50,000
- ✓ €3,750 for an annual gross remuneration > €50,000 and < €75,000
- ✓ €2,500 for an annual gross remuneration > €75,000 and < €100,000.

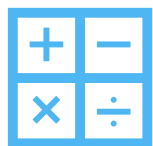
Example

- 1 The Luxembourgish company Alpha wishes to allocate a young employee bonus to Jérôme, one of its employees. Jérôme is 24 years old and signed his permanent employment contract with Alpha on 1.02.2025. By the extrapolation of his remuneration, Jérôme will receive an annual gross-remuneration of **€55,000**.



The maximum amount of the young employee bonus that Alpha can allocate to Jérôme for 2025 is **€3,750** (since his annual gross remuneration is > €50,000 and < €75,000)

- 2 The company Alpha decides to grant a young employee bonus of €3,750 to Jérôme in 2025.



For Jérôme, the taxation of **€3,750** is broken down as follows:

- **€2,812** ($€3,750 \times 75\%$) exempt from income tax
- **€937** ($€3,750 - €2,812$) subject to income tax

What are your obligations as an employer?

If you decide to grant a young employee bonus to your employees, you must complete the following formalities at the time the bonus is made available:

- ☒ Verify that the application conditions for the bonus are met,
- ☒ Declare the bonus in the employee's payroll.

Upon request from the tax administration, you will be required to provide supporting documents justifying the application conditions to this regime are fulfilled. Proof that the contract of the concerned employees constitutes their first permanent employment in Luxembourg must be provided by them to the employer.

2

The new rental allowance



What is the rental allowance?

The tax regime for the rental allowance (article 115.13c of the LITL) was introduced to allow employers who wish to grant their employees under 30 years old, tenants in Luxembourg or abroad, an allowance benefiting from a favorable tax regime at their level.

=>The rental allowance (with a maximum monthly amount of €1,000) is exempt from income tax for the employee, up to 25% of its amount.

This allowance aims to reduce the tax burden on young tenants, while taking into account the increase of real estate prices and the cost of living.

The rental allowance has been applicable since June 1, 2024.

What are the application conditions?



Eligible housing

Housing eligible for this incentive must meet the following conditions:

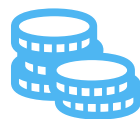
- ✓ The employee's primary/main residence,
- ✓ Located in Luxembourg or abroad, and
- ✓ Rented or co-rented.



Eligible employees

Employees eligible for this incentive are those who:

- ✓ Work in Luxembourg,
- ✓ Are under 30 years old at the beginning of the tax year, and
- ✓ Earn an annual gross salary not exceeding €94,960.50 (30 times the qualified minimum social wage).



Amount of eligible rental allowance

The monthly allowance benefiting from the exemption must not exceed the lower of:

- ✓ The monthly rent excluding charges paid by the employee (as evidenced in the lease contract), and
- ✓ The amount of €1,000 (for full-time employment and for full month)

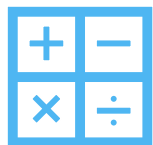
Example

- 1 The Luxembourgish company Alpha wishes to allocate a rental allowance to Sarah, one of its employees. Sarah rents an apartment in France and pays a monthly rent of €1,400. Sarah will receive an annual gross remuneration of **€55,000** in 2025.



The maximum amount of monthly rental allowance benefiting from the exemption that can be allocated to Sarah for 2025 is:
 $€1,400 > €1,000 = \textbf{€1,000}$

- 2 The company Alpha nevertheless decides to grant Sarah a rental allowance of €1,400 per month in 2025.



For Sarah, the taxation of **€1,400** is broken down as follows:

- **€250** (€1,000 x 25%) exempt from income tax
- **€1,150** (€1,400 - €250) subject to income tax

What are your obligations as an employer?

If you decide to grant a rental allowance to your employees, you must complete the following formalities at the time the allowance is made available:

- ☒ Verify that the conditions for applying the allowance are met (including that the employee's annual gross remuneration does not exceed the threshold set by law),
- ☒ Declare the allowance in the employee's payroll and precisely identify it in the payroll book.

Upon request from the tax administration, you will be required to provide supporting documents (including a copy of the lease contract) to verify that the conditions for applying this regime are met.

These various elements must therefore be provided to you in advance by your employees.

For more details, please refer to the circular n°115/14 of september 27th 2024: <https://impotsdirects.public.lu/dam-assets/fr/legislation/legi24/lir-115-14-du-2792024.pdf>

3

The profit-participating bonus



What is the profit-participating bonus?

The tax regime for the **profit-participating bonus** (article 115.13a of the LITL) was introduced in 2021 to allow employers who wish to grant their employees a bonus benefiting from a favorable tax regime at their level.

=> The profit-participating bonus is exempt from income tax for the employee, up to 50% of its amount.

This bonus contributes to retain and reward the employees for their performance.

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

We invite you to consult the UEL brochure on the tax regime for the profit-participating bonus, available on our website :
<https://uel.lu/fr/article/brochure-prime-participative-employeurs-comment-en-faire-beneficier-vos-salaries/>

What are the changes for 2025?



The "Entlaaschtungs-Pak" of July 2024* increased the ceilings for eligible bonuses to make this tax measure more advantageous.

Thus, the ceilings limiting the amount of eligible bonuses have been increased as follows:

✓ **Employer ceiling:**

Increase from **5%** to **7.5%** of the employer's positive result in year N-1.

✓ **Employee ceiling:**

Increase from **25%** to **30%** of the employee's annual gross salary in year N.

The new ceilings came into effect on January 1st, 2025.

* Bill n°8414 voted on December 20th 2024 and published at Mémorial A n°589

What are the application conditions?



Eligible employers

Employers eligible to implement this incentive are those who:

- ✓ Generate a commercial, agricultural/forestry, or liberal profession profit, and
- ✓ Maintain accrual accounting during the year the bonus is granted (year N) as well as the previous year (year N-1).



Eligible employees

Employees eligible for this incentive are those who:

- ✓ Work in Luxembourg, and
- ✓ Are compulsorily affiliated, for this activity, to a Luxembourgish social security scheme (or foreign under conditions).



Amount of eligible profit-participating bonus

The bonuses granted must respect the following ceilings:

- ✓ Max. 7.5% of the employer's positive result in year N-1 (employer ceiling), and
- ✓ Max. 30% of the employee's annual gross salary in year N (employee ceiling).

Example

- 1 The Luxembourgish company Alpha achieved a positive result of **€450,000** in 2024. In 2025, it wishes to allocate a profit-participating bonus to Jean, one of its employees.



Employer Ceiling:

The maximum amount of profit-participating bonus that can be allocated to Jean for 2025 is: $€450,000 \times 7.5\% = \mathbf{€33,750}$

- 2 Jean will receive an annual gross remuneration of **€55,000** in 2025



Employee Ceiling:

The maximum amount of profit-participating bonus that can be allocated to Jean for 2025, under this regime, is: $€55,000 \times 30\% = \mathbf{€16,500}$



For Jean, the taxation of **€16,500** is broken down as follows:

- **€8,250** ($€16,500 \times 50\%$) exempt from income tax
- **€8,250** subject to income tax

What are your obligations as an employer?

If you decide to grant a profit-participating bonus to your employees, you must complete the following formalities at the time the bonus is made available:

- ☒ Declare the bonus in the employee's payroll,
- ☒ Communicate to the relevant RTS office a nominative list of the beneficiary employees, in the prescribed format (available here: https://impotsdirects.public.lu/fr/echanges_electroniques/prime-participative.html).

Upon request from the tax administration, you will be required to provide supporting documents to verify that the conditions for applying this regime are met.

Failure to comply with these reporting obligations may result in the tax administration revoking the application of the favorable tax regime.

4

The new impatriate regime



What is the new impatriate regime?

The tax regime for **impatriates** (article 115 13b of the LITL) has been existing since 2011 to allow employers who wish to grant their employees coming from abroad a bonus benefiting from a favorable tax regime at their level.

This regime was modified as of January 1, 2025, to make its application simpler and more attractive for employers and their impatriate employees.

=> The new impatriate regime allows an income tax exemption for the employee up to 50% of their total annual remuneration (capped at €400,000 per year).

This new regime aims to provide a simple and attractive tool to attract key talents essential for the development of companies.

What are the changes for 2025?



The "Entlaaschtungs-Pak" of July 2024 modified the functioning and application conditions of this tax measure to simplify it and make it more advantageous.

Before this reform, certain actual expenses covered by the employer were entirely exempt from tax at the employee's level, and the impatriation allowance granted to the employee was exempt up to 50% (within the limit of 30% of the employee's annual salary).

Now, a flat-rate system is provided, characterized by an income tax exemption for the employee up to 50% of their annual remuneration (with a cap of €400,000). Additionally, some application conditions of the regime have been slightly modified.

What are the application conditions?



Eligible employees

Employees eligible for this incentive are those who:

- ✓ Are residents in Luxembourg (based on internal law),
- ✓ Earn a minimum fixed annual gross remuneration of €75,000 (before incorporation of the benefits in kind and/or in cash),
- ✓ Have not been Luxembourg tax residents (or have not lived within 150 km of the Luxembourg border / have not earned professional income subject to Luxembourg income tax) in the past five years,
- ✓ Work at least 75% of their working time, and
- ✓ Do not replace a non-impatriate employee.

● ● ● Other conditions

In case of secondment:

- ✓ At least 5 years of seniority in the relevant international group/sector,
- ✓ An employment relationship must exist between the sending company and the seconded employee,
- ✓ The seconded employee must be granted the right to return to the original company,
- ✓ A secondment contract must exist between the two employers.

In case of local recruitment:

- ✓ Have acquired in-depth specialization in a sector.

What are the application conditions?



Eligible employers

All employers located in Luxembourg are eligible for this incentive.

If the entity has been existing for at least 10 years, the maximum percentage of employees benefiting from the regime cannot exceed 30% of the total number of employees.



Duration of application of the regime

The favorable regime can be applied until the end of the 8th tax year following the year of the entry into service of the employee in Luxembourg.

Employees still benefiting from the previous regime can continue to do so after January 1, 2025, or they can request to benefit from the new regime (if the application conditions are met).

Example



- 1 The Luxembourg-based company Alpha has just hired Jack, who previously resided in the United Kingdom, in order to launch a brand-new activity within the company. To do so, Jack moved to Luxembourg on January 1, 2025, and will receive an annual gross remuneration of **€350,000**.
- 2 Jack fulfils all the requirements to benefit from the impatriate regime.



Jack will therefore benefit from a 50% exemption on his remuneration of **€350,000**. The taxation is broken down as follows:

→ **€175,000** ($€350,000 \times 50\%$) exempt from income tax

→ **€175,000** subject to income tax

What are your obligations as an employer?

If you decide to hire impatriate employees and allow them to benefit from the favorable tax regime, you must complete the following formalities:

- ☒ Verify that the conditions for applying the regime are met,
- ☒ Declare to the tax administration the nominative list of employees benefiting from the measure during the previous tax year (N-1). This declaration must be filed at the beginning of each year and no later than January 31.

Upon request from the tax administration, you will be required to provide supporting documents to verify that the conditions for applying this regime are met.

*Newsletter from the ACD published on 24 janvier 2025 related to Impatriate régime (Régime des impatriés)
<https://impotsdirects.public.lu/fr/archive/newsletter/2025/nl24-012025.html>

5

The new tax credit for overtime



What is the TCO?

The tax credit for overtime (TCO) aims to compensate, at least partially, the taxation in the country of residence of non-resident employees, on the remuneration received for overtime worked in Luxembourg.

=> The TCO amounts to 25% of the overtime remuneration (above €1,200), with a maximum of €700.

The TCO has been applicable since January 1, 2024.

What are the application conditions?



Eligible employees

The TCO is intended only for non-resident employees who carry out overtime on Luxembourg territory for a Luxembourg employer and fulfilling the following conditions:

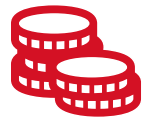
- ✓ Perform a salaried activity taxable in Luxembourg (excluding the civil servant status, State and municipality civil servants employees or trainees),
- ✓ Be personally affiliated, for the gross remuneration related to overtime, as compulsory insured person to a Luxembourgish social security scheme (or foreign covered by a bi- or multilateral social security instrument).

● ● ● **Other conditions to fulfil**

The eligible employee must be a resident of a state which concluded a double tax treaty with Luxembourg and which assigns to Luxembourg the right to tax salaries,

- ✓ The said agreement must provide that the state of residence of the eligible employees (i) eliminates double taxation by applying a tax credit for remuneration related to overtime worked in Luxembourg, or (ii) provides that the state of residence of the eligible employees taxes when the remuneration for overtime is not effectively taxed in Luxembourg, and
- ✓ The domestic law of the state of residence of the eligible employees does not contain a provision expressly granting a partial or total exemption, or any other tax relief, for overtime.

How is the TCO calculated?



Amounts of remuneration salary

The amount of the TCO varies depending on the gross remuneration received by eligible employees for overtime worked in Luxembourg. The gross remuneration includes the base salary and the corresponding salary increase (i.e., 140%).



Amount of the TCO

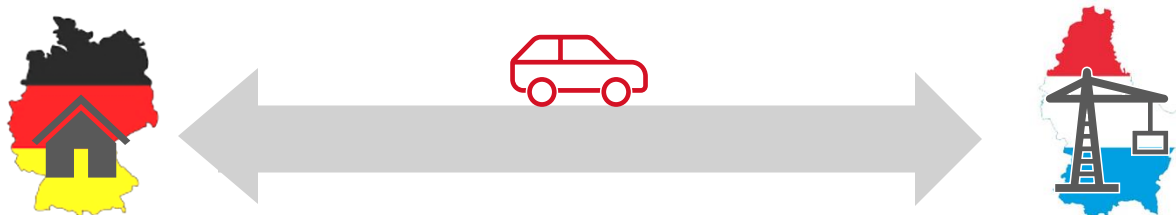
The maximum of TCO amounts to €700 per year, per eligible employee.

Below €1,200, the TCO amounts to €0.

For gross overtime remuneration between €1,200 and €4,000, the TCO is calculated as follows:

$(\text{gross overtime remuneration} - €1,200) \times 25\%$

Example



- 1 An employee, residing in Germany, receives a total annual gross remuneration of €50,000 including €4,000 as gross remuneration for overtime performed in Luxembourg. This remuneration linked to overtime is tax exempt in Luxembourg but subject to income tax in Germany (state of residence).
- 2 This employee will be entitled to a TCO amounting to:



$$4\,000\,€ - 1\,200\,€ = 2\,800\,€$$

$$2\,800\,€ \times 25\% = \mathbf{700\,€}$$

What are your obligations as an employer?

The employer has no specific formalities to complete in order for their employees to benefit from the TCO.

The concerned employees, on the other hand, must request the application of the TCO when filing their annual tax return (taxation by assessment) or when submitting their annual adjustment form.

The TCO is deducted from the final tax due by the eligible employee for the concerned tax year. If there is not enough tax, the TCO is credited to the taxpayer after the end of the tax year by the tax administration as part of the assessment. The latter may request all supporting documents from eligible employees to confirm that the conditions for granting the TCO are fulfilled.



Conclusion

Summary of the various tax measures

Description	1 Young employee bonus	2 Rental allowance	3 Profit-participating bonus	4 Impatriate regime	5 Tax credit for overtime
Objective of the measure	Attraction of young employees	Attraction of young employees	Retention of talents	Attraction of foreign talents	Retention of non-resident employees
Beneficiaries	Any employee under 30 years old in their first job	Any employee under 30 years old, living in rental accommodation and earning less than €94,960.50	Any employee of the company	Any impatriate employee (under certain conditions)	Any non-resident employee performing overtime in Luxembourg
Tax advantage for the beneficiary	75% exemption of the bonus (maximum bonus of €5,000/year and rem. max of €100,000/year)	25% exemption of the allowance (maximum allowance of €1,000 per month)	50% exemption of the bonus (maximum bonus of 30% of the annual gross remuneration)	50% exemption of the total annual remuneration (maximum remuneration of €400,000)	Tax credit of 25% (limited to a maximum of €700) beyond €1,200
Reporting obligations for employers	Declaration in the payroll	Declaration in the payroll	Declaration in the payroll and communication of the nominative list of beneficiaries	Declaration in the payroll and communication of the nominative list of beneficiaries	-

FAQ



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FAQ – General questions



Does the employer have the obligation to implement these tax measures ?

The grant of bonuses benefiting from a favorable tax regime is optional for the employer. Each employer is therefore free to discretionarily apply one or more of these measures to their employees, provided that the application conditions are met.



Does the employer benefit from any tax advantages when implementing these measures?

There is no specific tax advantage for the employer nor social security charges exemption.



Is it possible to combine these bonuses?

Overall, the combination of bonuses is possible, provided that the conditions to each allowance are fully met.

FAQ – The young employee bonus



Can a young employee bonus be granted to an employee who signed a fixed-term contract ?

The tax exemption related to the young employee bonus only applies in the context of the first permanent employment contract and not a fixed term-contract. Moreover, this contract must have been signed as from 01.01.2025 with an employer established in Luxembourg (or having a permanent establishment in Luxembourg in case the employer is established abroad).



What happens in case of a change of employer?

In case of a change of employer, the employee will no longer be eligible to receive such a bonus since the condition related to the first permanent employment contract will no longer be fulfilled. Consequently, the new employer will not be able to grant such allowance to this employee.

FAQ – The rental allowance



How to allocate a rental allowance to a couple of young tenants employees ?

An employee can benefit from the rental allowance as long as he/she pays a rent and is able to provide a lease contract in his/her name. Thus, if two names appear on the lease contract, the rental allowance can be allocated to each tenant, but the amount of rent used as the basis for calculating the eligible allowance will be divided by two.



Is the rental allowance linked to the condition of having a first permanent employment contract in Luxembourg?

The allocation of the rental bonus is not subject to the condition of having a first permanent employment contract in Luxembourg.

FAQ - The profit-participating bonus



Is it possible to grant a profit-participating bonus to only certain employees?

Granting a profit-participating bonus is optional for the employer. Each employer is therefore free to discretionarily allocate it. It can be distributed equally among all employees of the company or according to performance criteria freely defined.



Can the profit-participating bonus be granted to a shareholder/partner of the company?

The profit-participating bonus can be allocated to a shareholder or partner as long as he/she derives income from a salaried occupation in the said company (and if the other conditions are met) – see circular L.I.R. n° 115/12 of February 27, 2023.

FAQ - The impatriate regime



Can an impatriate who started his/her salaried activity in the company before 2025 and who benefits from the old impatriate regime, benefit from the new regime as from 2025?

Employees still benefiting from the old regime can continue to benefit from it after January 1, 2025, or they can request to benefit from the new regime (if the application conditions are met). When such a choice is made, it must be communicated to the tax administration with the annual communication containing the list of beneficiary employees. This choice will then become irrevocable.



Can an impatriate who started his/her salaried activity in the company before 2025 but who did not benefit from the old impatriate regime, benefit from the new regime as from 2025?

It seems that the impatriate regime should not be applicable in this case due to the fact that it was not granted to the impatriate employee upon their entry into service in Luxembourg. However, this point is not clearly mentioned in the law and should therefore be clarified.

Thank you for your attention !

For further information on this topic, feel free to contact
your usual contact person with one of our members.



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