



UNION DES ENTREPRISES
LUXEMBOURGEOISES

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THE PROFIT-PARTICIPATING BONUS

A guide for employers



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The profit-participating bonus has been introduced as from January 1, 2021. This brochure sets out the main terms and conditions for implementing it and outlines the various subsequent legislative changes thereof. This document 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 with the tax package to strengthen competitiveness and purchasing power of July 2024 (known as the “Entlaaschtungs-Pak”). These changes are presented in this brochure and apply as from January 1, 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 regime of the profit-participating bonus, embedded in article 115.13a) of the LITL, has been in place since 2021 and has recently been amended.

Under this scheme, eligible employers may, if they wish so, grant some of their employees a bonus which, under certain conditions, will benefit from a personal income tax exemption of 50% at their level. 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. Each employer is 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 TO IT?

Eligibility criteria for employees:



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

Eligibility criteria for employers:



- Realize a commercial, agricultural/forestry or professional profit, and
- Hold accrual accounts for the year in which the bonus is granted (year N) and for the previous year (year N-1).

WHICH AMOUNT OF 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 employer 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 income*** for the operating year N-1

Example

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

The maximum amount of profit-participating bonus that the company can allocate to its employee for 2025, under this plan, 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 the profit-participating bonus benefiting from the preferential tax regime may not exceed **30% of the employee's gross annual remuneration**** (before integration of 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 that he can receive for 2025, under this plan, 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 only to profit-participating bonuses granted from January 1, 2025. Previously, these ceilings were set at 5% and 25%, respectively.

* see page 7 for the definition of positive income 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 computed 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 previously must be determined on the basis of the employee's **foreseeable** gross annual remuneration for the year of payment. An adjustment will be made, if necessary, in the event of a subsequent change in the amount of the employee's remuneration for the relevant year.

2. What happens if my employee leaves the company during the year in which he/she 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 the tax-free bonus** based on 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 an eligible profit-participating bonus to your employees, since the employer's ceiling will be equal to zero (in the absence of positive company results 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 compute the employer's ceiling on the basis of the group's consolidated income ?

No, in this case you should in principle compute 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 compute 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 LTA files for the relevant employee (i.e., the one whose national identification number appears in the "Employment" section of the employee's tax form).

COMPUTATION OF THE BONUS: REMUNERATION & RESULTS TAKEN INTO ACCOUNT

What is the employee's “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 incorporation of benefits in kind and in cash) includes the **ordinary salary** and any additional elements making up this ordinary salary, such as **overtime** and **periodic premiums**.

On the other hand, cash benefits (such as bonuses, 13th month, interest bonuses, travel expenses, expense reimbursements) are excluded. Similarly, replacement income paid by CAE or CNS, for example, is excluded.

Furthermore, in the case of an activity partly carried out abroad by the employee 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 computing the employee ceiling.



Employee
side

What is the “positive result for the operating year” to be used to compute 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 on 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
side

CASE STUDY

A company has made a profit of € 150,000 in 2024 and plans to pay a bonus to its employee Julie in June 2025 to reward her for her performance. The company is wondering how much of the bonus will qualify for the 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 pertaining to a car: € 6,000
- ✗ 13th month: € 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 on the basis of the above-mentioned elements of remuneration, only Julie's foreseeable gross annual salary will be considered when computing 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 income tax at her level).

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 September 30, 2025. As a result, in 2025, the company would have actually paid to Julie a gross annual remuneration of € 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:
 $36,000 \times 30 \% = \text{€ } 10,800$ (of which 50% will be tax-exempt)

Consequently, due to her departure from the company during the year, Julie will be eligible for 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.

As a result, the company will 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 pay slip. 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 LTA) at the time the bonus is made available.

At the LTA'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 LTA's website under the heading "Electronic exchanges".

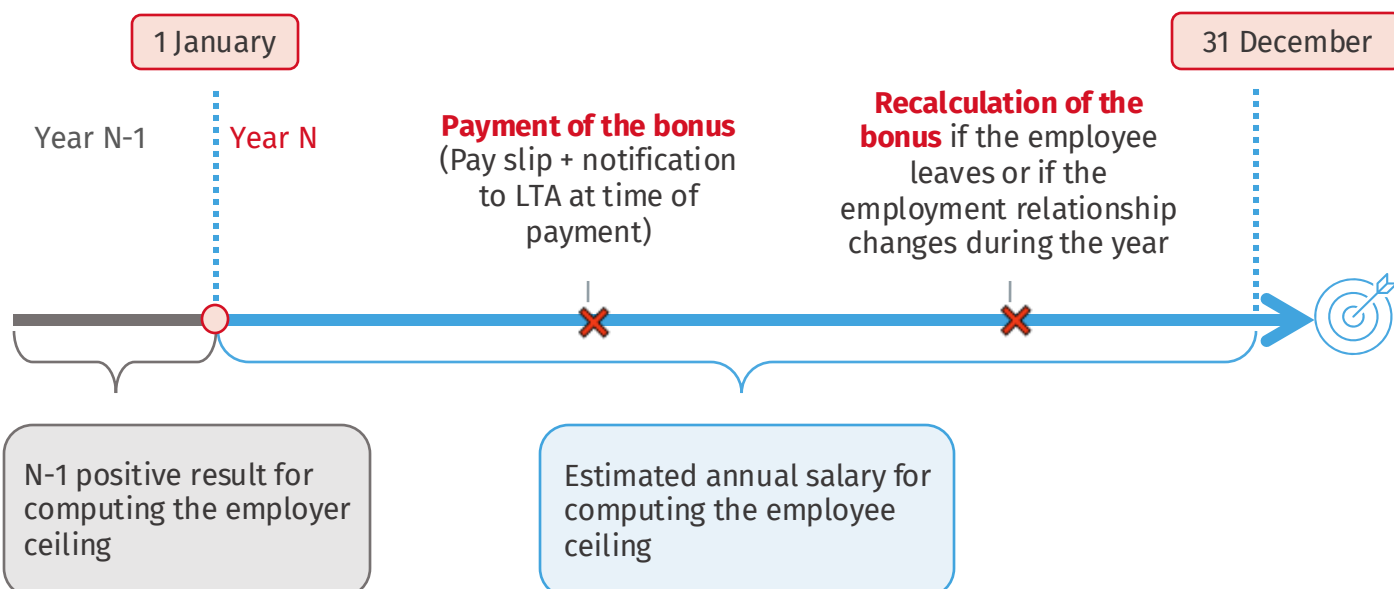
What are the consequences if the employer fails to comply with its reporting obligations?

If the above-mentioned reporting obligations are not fulfilled by the employer, the LTA may call into question the application of the preferential tax regime.

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

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

Timeline at a glance



FOCUS: PROFIT-PARTICIPATING BONUS AND TAX-CONSOLIDATED GROUPS

As of January 1, 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 compute 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 computing 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 as 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 : computation of the employer ceiling for a 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:

Société A: € 150,000

Société B: € -20,000

Société C: € 450,000

Société D: € 0

Analysis

The positive algebraic sum of the tax-consolidated group's result will be taken into account when computing 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:

$$(150,000 - 20,000 + 450,000) \times 7.5 \% = \text{€ } 43,500$$

Then, 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).

FOR FURTHER INFORMATION...

Useful links :

[Law of 19 December 2020](#)

[Law of 20 December 2024 amending the profit-participating bonus with effect from January 1, 2025](#)

[Circular](#)

Newsletters of the LTA:

- [26 October 2020](#)
- [11 February 2021](#)
- [22 July 2024](#) (bill of law n°8414 amending the profit-participating bonus with effect from January 1, 2025)
- [3 January 2025](#) (law of 20 December 2024 amending the profit-participating bonus with effect from January 1, 2025)

[FAQ](#)

[User guide](#)

[Dedicated page on the LTA website](#)

[Notification form](#)

Examples of filled-in forms:

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

[Tax-consolidation regime](#)

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

Glossary



CAE: Fund for the future of children (*'Caisse pour l'avenir des enfants'*)

CNS: National health fund

LITL: Luxembourg income tax law

LTA: Luxembourg tax authorities

Lux GAAP: Generally accepted accounting principles in Luxembourg

RTS: Wages and salaries withholding tax





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