

GLOBAL
EMPLOYER
GUIDE

LUXEMBOURG





Basic Country Facts

Full Name

- Grand Duchy of Luxembourg

Capital

- Luxembourg City

Main Languages

- Luxembourgish (65.61%)
- French (63.17%)
- German
- English
- Portuguese
- Italian
- Dutch
- Spanish

Population

- 0.613 million

Monetary Unit

- Euro

Internet Domain

- .lu

International Dialing Code

- +352

Currency

- Euro

STATUTORY LABOR REQUIREMENTS

Probation Period

- The minimum duration of the probationary period is two weeks
- The normal maximum probationary period is six months.
- However, the maximum probationary period cannot exceed three months for employees who have a level of education inferior to the certificate of technical and professional capacity of the technical secondary school.

Annual Leave

- In Luxembourg, at least 25 working days' paid leave must be given per year

Public Holidays

- There are 10 official Luxembourg bank holidays
- New Year's Day (1st January)
- Easter Monday (13th April)
- Mayday (1st May)
- Ascension Day (21st May)
- Whit Monday (1st June)
- Luxembourg National Day (23rd June)
- Assumption of Mary (15th August)
- All Saints Day (1st November)
- Christmas Day (25th December)
- Second day of Christmas (26th December)

Maternity Leave

- Pregnant employees are entitled to paid maternity leave for between 16 and 20 weeks.
- This leave is paid by the Luxembourg social security authorities up to an amount equaling five times the minimum social wage, with the balance, if any, being the liability of the employer.



Paternity Leave

- Under certain circumstances, both parents have a right to 6 months' full-time parental leave or 1-year part-time parental leave until the child has reached 5 years of age.
- Parental leave is paid by social security on a monthly lump-sum basis.

Sick Leave

- Employees who cannot work because of an accident or sickness must inform their employer orally or in writing on the day of the accident or sickness.
- By the 3rd day, the employee must send a medical attest confirming the employee's incapacity to work and the expected period of absence.
- If these procedures are followed, the employer may not dismiss the employee, even for gross misconduct, for a period of 26 weeks following the accident or illness.

Work Hours

- Working hours in Luxembourg are legally limited to 40 hours per week and eight hours per day

Overtime

- Hours worked beyond the legal working time (eight hours per day and 40 hours per week) when specifically requested by the employer, or when the employer is informed of these, are considered as overtime
- Overtime rates vary according to the requirements and conditions of the extra hours worked. If an employee is a top executive or classified as a manager, these restrictions do not apply.

Notice Period

- The statutory notice period (that applies to any dismissal) is:
 - two months for a length of continued services of less than five years;
 - four months for a length of continued services of more than five years but less than 10 years; and.
 - six months after a length of continued services of at least 10 years.

Severance

- A severance payment is legally due to a dismissed employee who has completed at least 5 years of service.
- The severance payment due is based on the seniority within the company and may vary from 1 to 12 months.

13th Month

- Many employers pay a 13th month 'bonus' to their employees and some add a half of a 14th month's pay to that, typically payable at the end of the year.
- This year-end or Christmas bonus (prime de fin d'année/jaarpremie) should be incorporated into the employment contract.
- Within the first and last year of employment, the 13th month bonus (and any holiday bonus related to vacation time) is paid pro rata if the employee does not work a full calendar year.



Income Tax

- Residents of Luxembourg are subject to tax on their worldwide income.
- Nonresidents are subject to tax on their Luxembourg-source income only.
- Individuals are considered resident if their accommodation indicates that they do not intend to reside only temporarily in Luxembourg or if they spend more than six months in Luxembourg.
- Luxembourg income tax law distinguishes among several categories of income, including income from employment, self-employment, trade and business, and agriculture.
- Resident and nonresident employees are subject to income tax on remuneration received from employment. Employment income includes wages, salaries, bonuses, employer-provided pension contributions and all other compensation in cash or in kind. Wage tax is withheld at source
- Tax rates are progressive with a maximum rate of 45.78% for 2019 (maximum 9% unemployment fund contribution included).
- The marginal tax rate is 45.78% for income exceeding EUR200,004 for taxpayers in Tax Class 1 (single individuals and married couples taxed separately) and Tax Class 1a (single, separated or divorced individuals with children) and EUR400,008 for taxpayers in Tax Class 2 (married couples or partners jointly taxable).
- The following table sets forth the average income tax rates for 2019, taking into account the applicable unemployment fund contribution and the tax credits for professional income

	Single individual		Married Couple	
Taxable income (EUR)	Amount of Tax (EUR)	Effective Tax Rate (%)	Amount of Tax (EUR)	Effective Tax Rate (%)
20,000	0	0	0	0
40,000	5,163	12.91	1,243	3.11
60,000	13,616	22.69	5,284	8.81
80,000	22,262	27.83	11,526	14.41
100,000	30,608	30.61	19,488	19.49
120,000	39,168	32.64	27,834	23.19
140,000	47,728	34.09	36,180	25.84
150,000	52,008	34.67	40,353	26.9
200,000	74,353	37.18	61,217	30.61



Social Security

- Social security contributions apply to wages and salaries and must be withheld by the employer.
- These contributions cover old-age pension and health insurance.
- Only employers pay contributions for professional accident coverage.
- In addition, dependence insurance to support the elderly and the disabled is payable by employees at a rate of 1.4% on total gross income with no ceiling, but after an annual deduction of EUR6,269.28 for 2019.
- Employers are not subject to dependence insurance contributions. Self-employed individuals must register for social security purposes.
- The rates of contribution are approximately the same as those for employers and employees combined.
- The following social security contribution rates for employers and employees apply as of 1 January 2017.

	Employee (%)	Employer (%)
Pension (a)	8	8
Illness (a)	3.05	3.05
Accident (a)	N.A.	0.72 to 1.2
Health at Work (a)	N.A.	0.11 (b)
Mutual insurance (a)	N.A.	0.41 to 2.79 (c)

Note: -

(a) The contribution rates are subject to an annual ceiling of EUR125,385 for 2019.

(b) The Health at Work contribution is payable only by employers that are members of the National Service for Health at Work.

(c) The rate varies according to the risk class of the employer based on the rate of absenteeism of the employees.



Deductible Expenses

- Income-related expenses are normally deductible.
- Employees benefit from minimum standard deductions of EUR 540 for job-related expenses.
- These deductions are doubled if the spouse/civil partner is also employed.
- If expenses for tools, specific work clothes, and so on, exceed the minimum, the actual expenses may be deducted.
- Commuting expenses between home and place of work are tax deductible, at a maximum of EUR 2,574 per year.
- Compulsory Luxembourg and foreign legal social security contributions covered by a social security treaty are also tax deductible.
- Employee's contributions to a qualifying employer-provided pension scheme are tax deductible up to a limit of EUR 1,200 per year.

Personal Deductions

- A deduction may be claimed for the following extraordinary expenses if specified conditions are fulfilled:
 - Expenses for hospitalization that are not covered by a sickness fund
 - Maintenance of close relatives
 - Expenses related to handicapped persons
 - Child care expenses
 - Employment of domestic staff
- Jointly taxable spouses/civil partners who both exercise a professional activity taxable in Luxembourg benefit from a lump-sum allowance of EUR 4,500.

Business Deductions

- In general, all expenses for business or professional activities are deductible, such as the following:
 - Costs of material and stock
 - Staff costs, certain taxes, rental and leasing expenses, finance charges, self-employed social security contributions, and all general and administrative expenses
 - Depreciation of fixed assets
 - Provisions for identified losses and expenses
 - Loss carryforwards





Deductible Expenses

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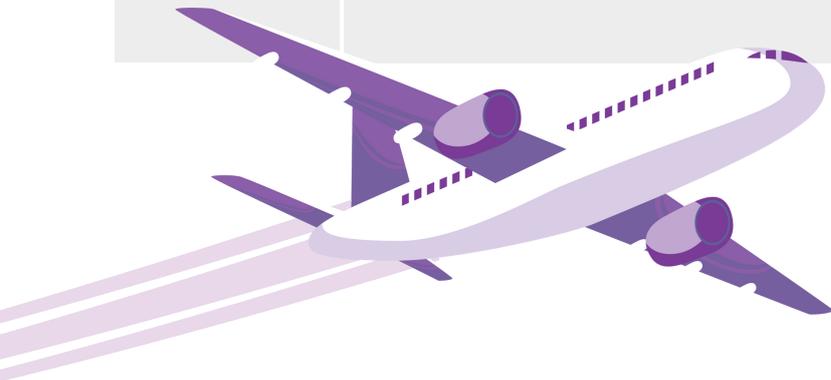
Immigration

- Under Luxembourg law, nationals of EU member states, EEA states (Iceland, Liechtenstein and Norway) or Switzerland do not need a residence authorization to perform their professional activities in Luxembourg.
- Luxembourg immigration requirements vary depending on the citizenship of the individuals and the length of their stay
- After a continuous period of five years of legal residence in Luxembourg, citizens of the EU, EEA or Switzerland and their family members (regardless of their nationality) have the right of permanent residence (on request).
- Workers with employment contracts.
 - A residence authorization allowing third-country nationals to work in Luxembourg is granted if the individual has entered into an employment contract and if several other conditions are met.
 - However, limited requirements apply to certain sectors of the economy experiencing substantial labor shortages.
 - The residence authorization is valid for a period of one year in one profession and one business activity but it is valid for any employer.
 - It can be renewed for a two-year period.
- Workers temporarily assigned for cross-border services.
 - Companies established in another EU/EEA member state or in Switzerland can freely assign their workers (regardless of their nationality) to Luxembourg for the rendering of cross-border services (these are services provided in Luxembourg by workers for employers established in another EU/EEA member state or Switzerland) if these workers are authorized to work and stay in their home country for the duration of the assignment.
 - Third-country nationals temporarily assigned to Luxembourg by companies established outside EU/EEA member states or Switzerland for the rendering of cross-border services must have a residence authorization that is issued on request of the home country company.
- Workers temporarily assigned to a company group.
 - On request of the host company, residence authorizations are granted to third country workers who are assigned between intragroup entities.
- Highly skilled workers.
 - The Blue Card Directive for highly skilled workers (2009/50/EC) was transposed into Luxembourg legislation in February 2012.
 - The EU Blue Card is granted to third country highly skilled workers for a period of two years (renewable on request) if they have concluded an employment contract of at least one year, have a higher education qualification or at least five years of higher professional experience and earn at least 1.5 times the Luxembourg average gross annual salary (EUR 73,998 since 11 December 2017).
 - This amount is 1.2 times the Luxembourg average gross annual salary (EUR 59,198.40 since 11 December 2017) for certain professions.
- Self-employed persons. Residence authorizations for a maximum period of three years (renewable) are granted to third-country self-employed persons if the following conditions are satisfied:
 - They have the professional qualifications and hold a business license or any adequate professional authorization.

- They have sufficient resources and accommodation.
- The exercise of the independent activity benefits the economic interests of Luxembourg
- Other categories of residence authorization. Under certain conditions, residence authorizations are granted to, among others, the following persons:
 - Third-country students
 - Exchange students
 - Unremunerated trainees
 - Researchers
 - Sportspersons
 - Inactive persons
 - Other persons for exceptional reasons (for example, medical treatments)



Type of Visa	Documentation	Validity	Eligibility
Residence Permit	<ul style="list-style-type: none"> • A valid passport • Health certificate • Proof of housing and employment • Police record (if applicable) 	<ul style="list-style-type: none"> • 1 year (workers with employment contracts) • 3 years (self-employed individuals) 	<ul style="list-style-type: none"> • Non EU/EEA member nationals with employment contracts • Non EU/EEA member nationals seeking self-employment • Third country nationals assigned for cross border work
EU Blue Card	<ul style="list-style-type: none"> • Valid Passport • Valid Visa • Bachelors or master's degree • Criminal record • Copy of the employment contract • CV 	4 years	<ul style="list-style-type: none"> • Highly skilled workers • Workers should earn at least 1.5 times the Luxembourg average gross annual salary (EUR 73,998 since 11 December 2017).



Value Added Tax (VAT)

- Whilst Luxembourg follows the European Union VAT compliance rules, it still sets its own VAT rate.
- The only proviso is that it is above 15%.
- Suppliers of goods or services VAT registered in Luxembourg must charge the appropriate VAT rate, and collect the tax for onward payment to the Luxembourg tax authorities through a VAT filling.

VAT Rates	
Standard	17%
Reduced	14%
Reduced	8%
Reduced	3%
Zero	0%

Withholding Tax

Dividends

- Dividends paid to a nonresident company generally are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.
- No tax is withheld on dividends paid to a qualifying company under the EU parent-subsidiary directive, unless the transaction constitutes an abuse of law under the GAAR

Interest

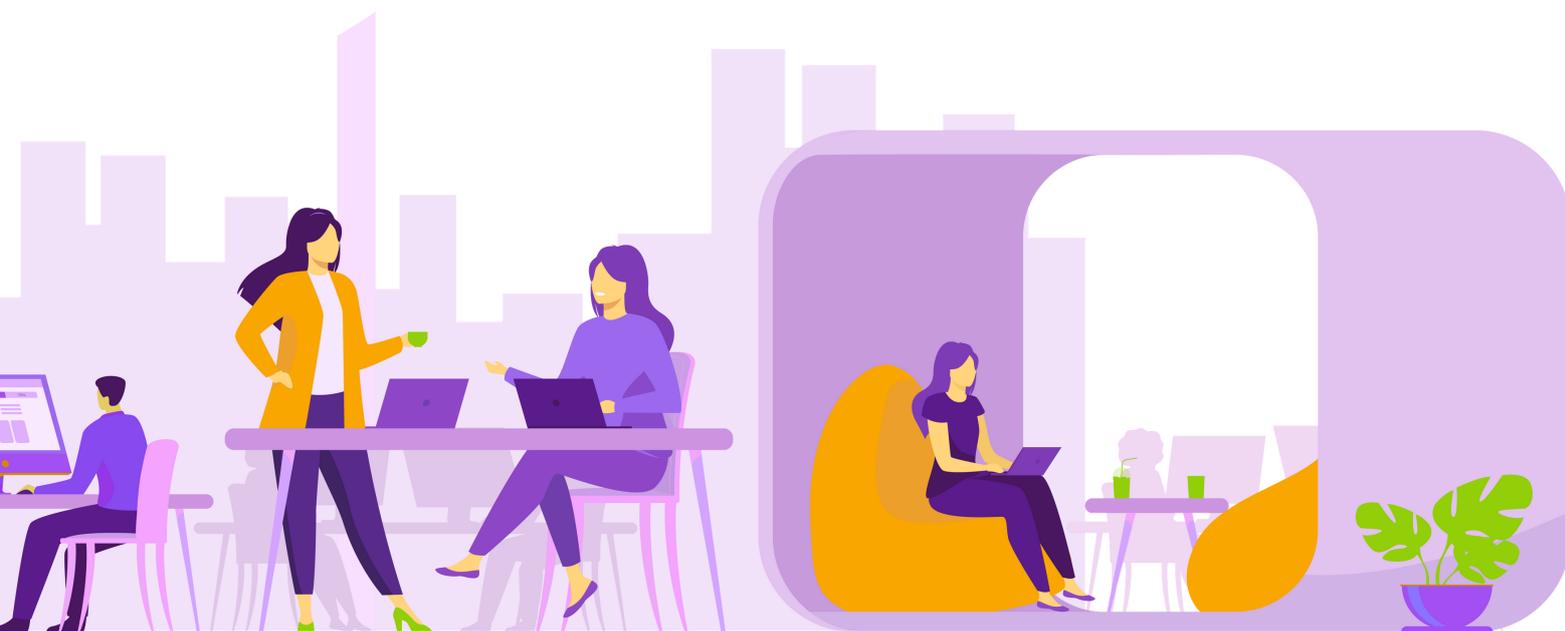
- Luxembourg does not levy withholding tax on interest
- However, interest on profit-sharing bonds and debt instruments with remuneration linked to the issuer's profits are taxed as dividends at a 15% rate

Royalties

- Luxembourg does not levy withholding tax on royalties

Technical Service Fee

- Luxembourg does not levy withholding tax on technical service fees



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Royalties	<ul style="list-style-type: none"> Luxembourg does not levy withholding tax on royalties
Technical service fees	<ul style="list-style-type: none"> Luxembourg does not levy withholding tax on Technical Service Fees

Termination

- Employers can terminate an employee rapidly during the probationary period. The minimum duration of the probationary period is two weeks.
- The maximum duration depends on the employee's salary and qualifications and includes the following:
 - Maximum of 3 months: If the employee does not have a vocational skills certificate.
 - Maximum of 6 months: If the employee has a vocational skills certificate or equivalent.
 - Maximum of 12 months: If the employee receives at least a gross salary of €4,154.91 as of January 1, 2015.
- Employers may terminate an indefinite employment contract given that the termination is based on real and serious reasons and adhering to the applicable notice periods (which may vary from 2 to 6 months). Employers are obligated to notify employees of the dismissal by registered letter.
- A severance payment is legally due to a dismissed employee who has completed at least 5 years of service.
- The severance payment due is based on the seniority within the company and may vary from 1 to 12 months.
- In the case of an employee resignation, employees must give notice, which is half the length the employer would have to give. The employee has no right to a severance payment and no right to unemployment benefits.



Statutory Benefits

- These are benefits as postulated by law
- These include probationary period, public holidays, annual leave, sick leave, maternity leave, parental leave, notice period and severance pay, 13th month pay
- Statutory benefits also include social security benefits

Statutory Benefits

Probationary period

Public Holidays

Annual Leave

Sick Leave

Maternity Leave

Parental Leave

Notice period

Severance pay

13th month pay

Social Security Benefits

Payments and Invoicing

- The tax year corresponds to the calendar year.
- Taxpayers must file annual income tax returns by 31 March 2019 for income earned in 2018.
- The filing deadline may be extended on the request of a taxpayer.
- Single nonresident taxpayers earning Luxembourg-source salaries and pensions must file tax returns if their taxable annual income exceeds EUR100,000 and if they have been employed continuously during nine months of the tax year.
- Married nonresidents who are jointly taxable must file tax returns if their joint salaries and pensions exceed EUR36,000.
- Under certain conditions, nonresident taxpayers can elect to be treated as Luxembourg resident taxpayers to qualify for the same deductions and allowances.
- The request is made in the taxpayer's income tax return.
- Self-employed individuals must make quarterly prepayments of tax in amounts that are fixed by the tax authorities based on the individual's most recent final assessment.





Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Luxembourg ranked 72nd in the World in 2019 in terms of ease of doing business.



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