

New Tax Reform: 4 bonuses to attract and retain your best employees!

The competitiveness of businesses will soon be enhanced thanks to the new tax reform in 2025!

In point of fact, the Luxembourg government wishes to bolster the country's economic appeal by specifically supporting employees and companies. More to the point, the upcoming reform aims to **reduce the tax burden that employees bear on the bonuses they receive from their employers.**

By way of reminder, under the tax legislation, all assets and benefits made available to the taxpayer are considered income and are therefore taxable, unless a tax provision stipulates an exemption.

Article 115 of the Income Tax Act set outs the various elements of remuneration that can be partially or entirely exempt, in particular several bonuses that employees can receive under their employment contract.

So, which current or new bonuses could prove interesting for your company and employees? Which bonuses are likely to attract talent and young professionals or retain your staff?

This newsletter presents four bonuses and how they can be optimised for tax purposes. These bonuses remain subject to social security contributions nonetheless.

I/ Rental allowance

Since 1 June 2024, employers have henceforth a new opportunity to attract young talent through a tax reduction: the rental allowance.

This is a monthly bonus granted by an employer to an employee who rents a home as their primary residence.

Certain conditions have to be met in order to be eligible:

- The amount of the bonus is limited to the rent (exclusive of charges) paid by the employee;
- The bonus is capped at €1,000 per full month and for full-time work;
- The employee must be under 30 years old at the beginning of the tax year;
- The employee's gross annual salary, excluding the rental allowance, must not exceed 30 times the qualified social minimum wage, currently €92,553.30 (index 944.43). In case of an incomplete year, the employer must extrapolate the salary over a full year to verify the above threshold.

If the conditions are met, 25% of the bonus is exempt. For a bonus of €1,000 per month, your employee will consequently be taxed on €750 only.

II/ Young employee bonus

The “young employee bonus” will be introduced into the tax regulation **as of 2025** and will benefit from a **tax exemption of 75%**.

Paid by the employer, this bonus is intended to support employees who are embarking on their careers who, in order to be eligible, must meet the following conditions:

1. Be under 30 years old at the beginning of the tax year;
2. Have their first open-ended employment contract signed with an employer established in the Grand Duchy of Luxembourg or abroad but with a stable establishment in the Grand Duchy of Luxembourg;
3. Remain with the same employer for as long as they wish to benefit from the bonus, with a maximum of five years.

This bonus will of course be granted at the discretion of the employer and correlated to the employee's salary.

The maximum annual amount of the young employee bonus, determined for full-time employment, giving rise to the exemption will therefore amount to:

- €5,000 for a gross annual salary of less than €50,000;
- €3,750 for a gross annual salary greater than €50,000 and less than €75,000;
- €2,500 for a gross annual salary greater than €75,000 and less than €100,000.

The gross annual salary refers to the salary (before cash and in-kind benefits) for the tax year in which the young employee bonus is granted.

If these conditions are met, the **75% of the bonus is exempt**. The employee is therefore taxed on only 25% of it.

III/ Profit sharing bonus

Employers have since 2021 had the possibility of paying employees a participation bonus that can be exempt from tax by up to 50%, provided certain conditions are met.

Currently...

- The total amount of participation bonuses an employer can allocate to employees is limited to 5% of the positive operating result of the financial year immediately preceding the one for which the participation bonus is granted.

The "positive result" refers to the employer's net profit as reported in the last balance sheet closed before 1 January of the year in which the participation bonus will be paid to the employee.

The first step, therefore, is to determine the total available budget that can be granted for participation bonuses.

- Employers have full discretion in selecting the employees who will receive these bonuses! The law allows any employee, without limitation in number or regardless of their qualifications or status, to benefit from this bonus as well as its exemption.
- Attention, one final consideration: There is a limit of 25% of the employee's gross annual salary for the tax year in which the participation bonus is granted. In concrete terms, this means that the 50% exemption applies only to the portion of the bonus that does not exceed this 25% threshold.

Example: For an employee with a monthly salary of €4,000, or an expected annual salary of €48,000 (= €4,000 x 12), the 25% limit is €12,000 (= €48,000 x 25%). The maximum exemption amount is €6,000 (= €12,000 x 50%).

- If they receive a participation bonus of €10,000, half of this bonus (€5,000) will be exempt from tax.
- If they receive a participation bonus of €12,000, half of this bonus (€6,000) will be exempt from tax.
- If they receive a participation bonus of €14,000, the 25% limit (€12,000) will be exceeded. The exemption will only apply to the portion of the bonus that does not exceed this threshold. Only €6,000 ($= €12,000 \times 50\%$) will be exempt from tax. The remainder of the bonus, €8,000 ($= €14,000 - €6,000$), will be fully taxable as a non-periodic salary.

For the calculation of this 25% limit, the annual salary includes the ordinary salary, overtime, and periodic bonuses, exclusive of benefits in kind and in cash such as gratuities, 13th-month payments, interest bonuses, travel expenses, expense reimbursements, etc.

... as of 2025!

Two interesting new developments are expected to come into effect as of next year:

- The total available budget, currently 5%, will increase to 7.5% of the positive result.
- The maximum amount of the bonus that is partially exempt will be raised from 25% to 30% of the employee's gross annual salary.

IV/ Impatriation bonus

Currently ...

The introduction of the impatriate regime has for many years now made it possible for employers, subject certain conditions, to exempt specific salary items from tax that are related to the particular situation of said employees.

Impatriates are highly qualified foreign employees hired to work in Luxembourg, bringing a particular skill to a local employer.

If the criteria for the employee as well as the employer are met, various salary benefits granted by the employer are partially or entirely exempt under certain conditions.

These are mainly:

- The impatriation bonus, equivalent to a maximum of 30% of the employee's annual salary, 50% of which is exempt.
- The housing costs, which may not exceed 30% of the employee's fixed annual salary or €50,000 (up to €80,000 under certain conditions) per year, qualify for full tax exemption if the employee maintains his previous residence in his home country.
- The reimbursement of moving expenses to Luxembourg and the costs of setting up the home.

...as of 2025 !

In order to provide companies with a way of attracting key talent who are vital for their growth, the reform provides for a **flat-rate system** characterised by a **50% tax exemption** on the total gross annual salary. The annual salary amount that can qualify for this exemption will be capped at €400,000.

This new flat-rate system will replace the current regime, which is based on the exemption of actual expenses incurred by the employer and the partial exemption of the impatriation bonus.

READY TO OPTIMISE YOUR SALARY POLICY?

Contact our legal team for a personalised study
and get bespoke advice for your needs!

 +352 26 38 46 20  payroll@securex.lu

The information published in this article is valid only on the date of publication of said article. As social legislation is frequently amended, please contact us concerning any question or intended use based on this article or a previously published article. Pursuant to Article 2, §2 of the Act of 10 August 1991, as the Legal Department of SECUREX Luxembourg SA is not authorised to practice law, it shall limit its action at all times to disseminating information and documentation. Such documentation and information thus provided under the legal subscription always constitute typical examples or summaries, are of indicative value, and lay no claim to being exhaustive. The addressee is solely responsible for the use and interpretation of the information or documentation referred to in this article, advice or acts he deduces as well as the results he obtains from them.