



GMS Flash Alert



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Luxembourg - 2017 Tax Reform Legislation Approved by Parliament

Recently approved legislation in Luxembourg will alter the tax treatment of married couples and registered domestic partners. In addition, from 2018, how married nonresident taxpayers are taxed will undergo a change. The global tax schedule has been revised, with new income brackets and some new rates.

Following the announcement of the tax reform in early 2016 and the submission of the draft legislation in August, the Luxembourg Parliament voted on 14 December in favor of the reform by a slim majority.¹ The new tax legislation² entered into force on 1 January 2017 (with certain exceptions, explained below).

WHY THIS MATTERS

The new measures represent important changes to Luxembourg's individual tax system affecting all local employees, cross-border workers, and international assignees alike. In particular, certain nonresident taxpayers (e.g., cross-border workers) could be disadvantaged due to higher taxation from the change to their tax class status.

Global mobility tax professionals, program managers, and international assignees should be aware that determining whether it would be beneficial for married couples/registered partners to file separate tax returns or joint tax returns could be complex, and careful consideration needs to be given to the options available.

Highlights of the Key Measures

We highlight the key measures below and further clarify certain changes to Luxembourg's tax law which will be effective **from 1 January 2018**.

Option for Individual Taxation of Couples and Registered Partners

Starting in 2018, married couples and registered partners will have the option to be taxed individually. To make the election, married couples must file a joint non-revocable application by 31 December of the tax year preceding the tax year concerned (i.e., the application for 2018 should be filed before 31 December 2017). Registered partners should file the non-revocable application by 31 March of the tax year following the tax year concerned (i.e., the application for 2018 should be filed before 31 March 2019). This election can be made on an annual basis. Further details can be found in the [newsletter](#) published by the KPMG International member firm in Luxembourg.

Taxation of Nonresidents

The taxation of married nonresident taxpayers will be substantially amended as from *1 January 2018*. Nonresident couples will be taxed as single taxpayers in tax class 1 during the tax year, unless the spouses are taxable in Luxembourg on at least 90 percent of their yearly worldwide income. In that case they can opt to be jointly taxed (in tax class 2) at the tax rate applicable to their household's worldwide income. In certain situations it is also possible and potentially beneficial to opt for joint taxation if only one of the partners is taxable in Luxembourg on 90 percent or more of his or her yearly worldwide income. Please refer to the recent KPMG Luxembourg [newsletter](#) for further details.

2017 Individual Income Tax Rates/Thresholds

The global tax schedule has been revised. Additional income brackets and tax rates are now included in the tax tables. In addition, a marginal tax rate of 41 percent has been introduced on annual income of €150,000 or more. A 42-percent rate will apply for singles on annual income of €200,004 or more (for taxpayers in tax class 1, €400,008 for couples filing jointly in tax class 2). The tax rates for 2017 can be found in the aforementioned KPMG Luxembourg [newsletter](#).

KPMG NOTE

Uncertainty remains with respect to how the changes will be implemented by the tax authorities.

We are closely following the developments of the tax reform, and further details will be provided in future GMS *Flash Alerts* as additional information becomes available.

FOOTNOTES:

1 See our previous issues of GMS *Flash Alert*: [2016-090](#) (11 August 2016), [2016-059](#) (26 July 2016), and [2016-058](#) (6 May 2016).

2 The full text (electronic version) of the law (in French) as published in *Mémorial A* n° 274 de 2016 (27 décembre 2016) can be found at: <http://legilux.public.lu/eli/etat/leg/memorial/2016/274>.

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