

Luxembourg Tax Alert

2017 Individual Tax Reform – How to calculate tax credit for single parents and tax credit for employees: guidelines issued by Tax Authorities

12 April 2017

Following the 2017 Individual income tax reform applicable as from 1 January 2017, the Luxembourg tax authorities (*Administration des contributions directes*) issued Circular letters on 7 April 2017 regarding the calculation of the tax credit for single parent households (CIM) and the tax credit for employees (CIS) (respectively Circular L.I.R n° 154ter/1 and Circular L.I.R n°154quater/1).

1. Tax credit for single parents

Circular L.I.R n° 154ter/1 seeks to clarify the attribution modalities of the tax credit for single parents, which has been modified by the 2017 tax reform:

- Non-married taxpayers living together in the same household with their common children are not entitled to claim the tax credit
- Applicable to individuals in tax class 1A, having children at charge
- The tax credit is granted upon written request to the tax authorities by the single parent
- Single parents entitled to a tax class 2 (e.g., divorced tax payer) are not entitled to claim the tax credit
- The tax credit is modulated depending on taxable income and must be reduced by any allowance (if above €2,208 per year) received by the taxpayer during the year
- It must be prorated based on full month of tax liability
- The tax credit can be granted through the tax card at the beginning of the year and applied directly in payroll

- The individual taxpayer can also claim it through his annual tax return or wage tax adjustment
- The tax credit for single parents is not applicable for a non-resident taxpayer unless the individual opts for the “assimilated to resident” tax regime (article 157ter L.I.R)
- You will find more information about the [tax credit amount on our dedicated webpage](#).

2. Tax credit for employee

The Circular L.I.R n°154quater/1 details the new article 154quater, which replaces article 139bis relating to the tax credit for employee.

Since 1 January 2017, the tax credit for employees is no longer granted to all employees for a fixed amount of €25. Instead it is calculated progressively depending on the individual's gross income level with a maximum amount of €600.

The circular provides following guidelines:

- On the definition of gross income:
 - Salary and any benefits as described in article 95 L.I.R
 - Foreign income (e.g., in case of employment in Luxembourg and abroad) included only if employer has the necessary information
 - Net income/allowances should be grossed up in order to include in calculation basis
- Clarifies the calculation method and basis, especially in the case of variation of remuneration:
 - The tax credit is calculated based on an annual projection of the gross income
 - Divided by 12 to obtain the monthly tax credit or by 300 for a daily tax credit
 - At the year end, the employer should proceed with a tax credit regularization based on the full year gross remuneration
 - The calculation done through payroll should be considered as provisional, until year-end calculation or tax return/wage tax adjustment
- Clarifies the mandatory indications applicable on tax card (CIS OUI).
- Example:
 - Monthly gross income: €4,000; i.e., annual estimated gross income €48,000
 - Monthly estimated tax credit: €50; i.e., €600 on an annual basis

- Year-end:

- Actual annual gross income of €50,000
- Annual tax credit: €450
- Regularization on December's payslip: €150 to "refund" back to tax authorities and will be deducted from the net salary

- It may also result in additional tax credit in favor of the employee

For more information do not hesitate to contact our team; we will be happy to assist you.

You will find all the information in relation to the [2017 tax reform on our dedicated web page](#).

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