



PAYROLL ALERT

2021 State budget: important measures for employees and employers

The 2021 budget draft law (n°7666) has been submitted to Parliament on 14 October 2020. This draft law includes measures that are important for employees and employers and that we summarize below. The reader should note that these are proposals that are subject to the approval of the deputies before they become effective (with the exception of the repeal of the tax circular on stock options, which would result from an administrative decision).

I. Repeal of the tax circular on stock options

The tax circular LIR n° 104/2 on the tax regime of stock options would be repealed as of 1 January 2021. This decision would put an end to the favorable tax regime of warrants, which are currently used to reduce the taxation of variable remunerations.

II. Setting up of a tax regime for profit-sharing premiums

The draft law introduces the possibility for employers to grant their employees a profit-sharing premium under a tax favorable regime. Employers may use this regime if they are profit-making and if the total of profit-sharing premiums granted does not exceed 5% of their net profit; these conditions are assessed for the year preceding the year of payment of the premiums.

On his side, the employee shall be affiliated to a social security regime and the premium shall not exceed 25% of his annual base salary excluding benefits and bonuses. If these conditions are fulfilled, the premium benefits from a 50% tax exemption. It should be noted that this regime is fully optional and that the choice of the employees who benefit from the premium is at the sole discretion of the employer.

III. Changes in the impatriate tax regime

The impatriate tax regime, which is currently ruled by tax circular LIR n° 95/2, will be transposed in the tax law on 1 January 2021 and will be subject to some changes.

The main changes in the conditions of application of the regime are the following ones:

- ▶ repeal of the condition to hire at least 20 employees;
- ▶ alleviation of the condition of tax residence;
- ▶ in case of direct recruitment, removal of the obligation to demonstrate difficulties of recruitment for the position concerned;
- ▶ increase of the minimum remuneration of the impatriate from 50.000 to 100.000 euros per annum (annual base remuneration excluding benefits and bonuses).



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The expenses borne by the employer that may benefit of a tax exemption (under conditions) when refunded to the impatriate remain unchanged. For the record, the main eligible expenses are moving expenses, housing expenses and school fees. The current lump sum indemnity is replaced by an impatriation allowance, which benefits from a 50% tax exemption provided it does not exceed 30% of the annual base salary of the impatriate (excluding benefits and bonuses).

Finally, the regime will be applicable during a period of 8 years instead of 5 years currently (in addition to the year of arrival in Luxembourg).

IV. Simplification regarding tax cards

During the course of 2021, the tax authorities will open a secured online platform on which employers will be able to access the tax cards of their employees. As from 2022, the consultation of the platform will become mandatory for employers and employees will no longer need to submit their tax card to their employer. In addition tax cards will become open-ended, which means that they will remain valid as long as the employee's situation does not change.



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INTERESTED?

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