

# **EUROMOD**

## **COUNTRY REPORT**



# **LUXEMBOURG (LU)**

## **2011-2014**

**Philippe Liégeois, Anasse El Maslohi, Anne-Sophie Genevoisn & Nizamul Islam**

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**EUROMOD version G3.0**



EUROMOD is a tax-benefit microsimulation model for the European Union (EU) that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU as a whole.

EUROMOD has been enlarged to cover 28 Member States and is updated to recent policy systems using data from the European Union Statistics on Income and Living Conditions (EU-SILC) as the input database, supported by DG-EMPL of the European Commission.

This report documents the work done in one annual update for Luxembourg. This work was carried out by the EUROMOD core developer team, based mainly in ISER at the University of Essex, in collaboration with a national team.

EUROMOD director: Holly Sutherland

EUROMOD executive director: Jack Kneeshaw

EUROMOD coordination assistant: Cara McGenn

EUROMOD developer responsible for Luxembourg: Alberto Tumino

National team for Luxembourg: Philippe Liégeois, Anasse El Maslohi, Anne-Sophie Genevois and Nizamul Islam

The results presented in this report are derived using EUROMOD version G3.0. EUROMOD is continually being improved and the results presented here may not match those that would be obtained with later versions of EUROMOD. For more information, see: <https://www.euromod.ac.uk>

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The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-28, EFTA-EEA and EU candidate and pre-candidate countries.

PROGRESS mission is to strengthen the EU contribution in support of Member States' commitment. PROGRESS is instrumental in providing analysis and policy advice on PROGRESS policy areas; monitoring and reporting on the implementation of EU legislation and policies in PROGRESS policy areas; promoting policy transfer, learning and support among Member States on EU objectives and priorities; and relaying the views of the stakeholders and society at large.

For more information see: <http://ec.europa.eu/progress>

The information contained in this publication does not necessarily reflect the position or opinion of the European Commission.

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## 1. BASIC INFORMATION

*General remark:*

All amounts and qualitative information mentioned below correspond to the year 2011 (as on June 30<sup>th</sup>, when relevant), unless otherwise stipulated.

### 1.1 Basic information about the tax-benefit system

Table 1. Basic figures

	Pop. (m.)	Pop. < 15 (%)	Pop. ≥ 65 (%)	Life expect. (years) M / F	Fertility rate	Unemp Rate (not season- ally adjusted data)	GDP per head (PPS, EU27 =100 )	Currency
2011	0.512	17.6	13.9	78.5 / 83.6	1.52	4.8	264	Euro
2012	0.525	17.1	14.0	79.1 / 83.8	1.57	5.1	263	Euro
2013	0.537	17.0	14.0	79.8 / 83.9	1.55	5.9	257	Euro
2014	0.550	16.8	14.1	n/a	n/a	6.0	262	Euro

Source: Eurostat (2015), <http://ec.europa.eu/eurostat/data/database>

Table 2. Tax-benefit system and government budget

	Total general government revenue <sup>[1]</sup> % of GDP	Total tax receipts <sup>[1]</sup> % of GDP	Total general government expenditure <sup>[1]</sup> % of GDP	Social protection <sup>[2]</sup> % of GDP
2011	42.7	37.5	42.3	22.2
2012	43.6	38.5	43.5	23.0
2013	44.4	39.3	43.6	n/a
2014	n/a	n/a	n/a	n/a

Sources: <sup>[1]</sup> OECD (2015) <http://stats.oecd.org/Index.aspx> ; <sup>[2]</sup> Eurostat (2015) <http://ec.europa.eu/eurostat/data/database>

Table 3. Social protection expenditure by function (as % of total social protection expenditure)

	Sickness/ health care	Disability	Old age	Survivors	Family/ children	Unemployment	Housing	Social exclusion
2011	25.2	11.7	28.4	9.0	16.2	5.4	1.4	2.3
2012	25.2	11.3	29.1	8.7	16.1	5.7	1.3	2.2
2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2014	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Eurostat (2015) <http://ec.europa.eu/eurostat/data/database>

Table 4. Taxation (as % of total tax receipts)

	Personal income tax	Corporate income tax	Social security contributions		Taxes on goods and services	Other taxes
			Employees*	Employers		
2011	22.3	13.5	16.7	12.6	27.7	7.3
2012	21.9	13.4	16.8	12.4	28.1	7.3
2013	22.8	12.4	16.2	12.4	28.5	7.6
2014	n/a	n/a	n/a	n/a	n/a	n/a

\* Includes self-employed

Source: OECD (2015) <http://stats.oecd.org/Index.aspx>

- The tax-benefit system is largely a unified, national system. The main exception is property taxes (*impôt foncier*) which are levied at the local level (*commune*).
- In Luxembourg, the “tax year” runs from 1 January to 31 December.
- State pension age in 2011 was 65. Early retirement pension (*pension de vieillesse anticipée*) from 60 years of age, on condition that 480 months of effective insurance can be proved or assimilated periods can be proved. From 57 years of age, on condition that 480 months of effective insurance can be proved.
- Minimum school leaving age in 2011 was 16. Since 2011, children in higher (tertiary) education are no longer eligible for child benefits. For income tax purposes, dependent children are defined as children aged under 21 on 1 January of the tax year or aged 21 years old and over who are still studying (entitled to family allowances).
- For benefit and tax purposes a lone parent is not legally married (single, divorced or widowed) to anyone and is a parent of a dependent child.
- Luxembourg has a system of compulsory joint taxation (income splitting) for married couples. Cohabiting couples under the “partenariat” law also have the possibility to be taxed jointly.
- The different income sources (commercial profit, agricultural and forestry profit, liberal profession profit, employee income, pension income, capital income, rental income and miscellaneous income) are aggregated to compute the taxable income. Since 2006 Luxembourg has introduced a 10% withholding tax on income from certain savings products for residents of Luxembourg who are not tax residents in another state. This tax is in full discharge of a person’s liability to tax on that income.
- Withholding taxes are levied on some forms of income: income from employment, pensions and some savings and investment incomes are subject to a pay-as-you-earn system. Other income must be declared in an annual

tax return, submitted to the Luxembourg Tax Administration. In the case of couples with two earners, they have to fill a tax return.

- Wages and some benefits (pensions, minimum income...) are ordinarily indexed by 2.5% to price development. However, this system has been recently amended by periods to regulate indexation (e.g. postponing or implementing it once a year only).
- Social contributions and state benefits and pensions are usually assessed and delivered on a monthly basis.

#### About the minimum (social) wage

- Unless exceptional and specific agreements possible in some circumstances, wages are submitted to minimum rates in Luxembourg: €1,757.56/month for non-qualified wage-earners in 2011 for a full time job (40 hours/week). (€ 10.1593/hour with a basis of 173 hours/month), €1,801.49/month in 2012 and €1,874.19/month in 2013 and €1,921.03/month in 2014.
- Those basic amounts are increased by 20% for qualified workers and also modulated based on the age of the wage-earner: 80% of the basic amount if aged 17 or 18, 75% of the basic amount if between 15- and 17-year-old.
- The basic amount is defined as the “Minimum Social Wage” (*salaires social minimum*), hereafter “Minimum Wage” or “MW” and is also an important parameter for the tax-benefit system as a whole: several amounts are defined based on this MW: upper limit of the monthly old-age pension in the general scheme (5 times the MW), ceilings for social contributions, etc.

## 1.2 Social Benefits

**Maternity allowance** (*Allocation de maternité*) is paid by the National Fund of Family Allowances (*Caisse Nationale des Prestations Familiales*) to women with no loss of income during their maternity leave. This means that maternity allowance is paid to women (either resident or non-resident working in Luxembourg) who do not benefit from maternity benefit (or receive an amount for such a benefit which is lower than the maternity allowance). The amount is €194.02 per week, payable over a period of 16 weeks. The allowance is not subject to taxation or to social contributions. Since 2006, the amount of this allowance is no longer linked to changes in prices.

**Birth grant** (*Allocation de naissance*) totalling €1,740.09 is available to women resident in Luxembourg, on the condition that both mother and child have the required medical examinations. The grant is not subject to taxation or to social contributions. Since 2006, the amount of this allowance is no longer linked to changes in prices.

**Child-raising allowance** (*Allocation d'éducation*) is a benefit aimed at recognising financially the upbringing activity. For a parent who educates a child under 2 years and either does not have a regular (professional or replacement) income or whose income, cumulated with that of the husband/wife, does not exceed €5,111.37 month when educating one child; €6,815.16/month when educating two children; €8,518.95/month when educating three or more. The amount of the allowance is €485.01 per month. The amount is due from the first day that follows either the end of the maternity leave or the end of the eighth week after the birth. The allowance stops on the first day of the month that follows the month during which the child reaches the age of 2. By derogation, the allowance is maintained in favour of any beneficiary who has educated twins or at least 3 children until one of the children is less than 4 years old. By derogation, the age limit for the payment of the allowance in the case of multiple births of more than 2 children is up-rated by 2 years per supplementary child. The allowance is not subject to taxation or to social contributions. Half the allowance is available in the case of part-time employment. Since 2006, the amount of this allowance is no longer linked to changes in prices.

**Child benefit** (*Allocations familiales*) is a universal scheme financed by tax. A child's personal rights are related to the residence. Each child brought up continuously in Luxembourg and with a legal residence there is entitled to this child benefit. The age limit is 18 years. For children in vocational training or further education or suffering from a serious infirmity, the age limit is 27 years old. The monthly amount is €185.60 for one child, €440.72 for two

children, €802.74 for three children and €361.82 for each subsequent child. Child benefit does not vary with income. Child benefit varies with age: children aged 6 and more receive a supplement of €16.17/month and children aged 12 and more receive a supplement of €48.52/month. The benefit is not subject to taxation or to social contributions. Since 2006, the amount of this allowance is no longer linked to changes in prices.

Since 2011, children in higher (tertiary) education are no longer eligible for child benefits. A reform of the higher education grant, complementary to the change in child benefits, has been implemented. However, given that not simulated in EUROMOD up to now, this grant is copied from input data basis.

**Supplementary allowance** (*Allocation spéciale supplémentaire*) of €185.60/month for each child under 18, with an insufficiency or permanent reduction of at least 50% of physical or mental ability by comparison with that of a child of the same age. The allowance is neither subject to taxation nor to social contributions. Since 2006, the amount of this allowance is no longer linked to changes in prices.

**New school year allowance** (*Allocation de rentrée scolaire*) aims to compensate the costs related to the new school year. This allowance is given to children over 6 years. The amount of this allowance varies with the age and size of the family group.

For one child:

6 - 11 years: €113.15/year

12 years and more: €161.67/year

For two children (amount per child):

6 - 11 years: €194.02/year

12 years and more: €242.47/year

For three or more children (amount per child):

6 - 11 years: €274.82/year

12 years and more: €323.34/year.

Since 2006, the amount of this allowance is no longer linked to changes in prices.

And since 2011, children in higher education are no longer eligible.

**The guaranteed minimum income** (*Revenu minimum garanti*) was created by the law of 29 April 1999, which modified the law of July 1986. The principles of this benefit are to fight against social exclusion and to ensure sufficient means for a decent standard of living and measures of professional and social integration. The guaranteed minimum income can be either an integration allowance (*indemnité d'insertion*) or a supplementary allowance aiming at compensating the difference between the highest amounts of the guaranteed minimum income and the sum of the household resources. The eligibility conditions concern i) residence (persons resident in Luxembourg territory and having resided in the country for at least 5 years during the last 20 years. This residence condition is not required for EU or EEA citizens or for refugees); ii) age (with effect from 25 years; exceptions for persons unable to work, those who are looking after a child or an invalid.); iii) willingness to work (to be ready to participate in active measures); iv) should not have abandoned or reduced his work of his own free will, without giving important and real justifications or should not have been dismissed for serious reasons.

The reference minima have been fixed through political decision in comparison with the social minimum wage (*salaire social minimum*) and pension minima. The domestic unit for the calculation of resources is defined by the "de facto" community of all the persons living in the same common household, obviously disposing of a common budget and unable to provide evidence that they live elsewhere. The resources taken into account are the entire gross revenue of the household, possessions and replacement or supplementary social security benefits (excluding family allowances, maternity benefits, long-term care benefits and up to the guaranteed minimum income for a person living alone for the professional income of children less than 25 years old). However, to avoid inactivity traps, up to 30% of the reference minima are disregarded from the professional incomes and replacement incomes to compute the resources.

The guaranteed minimum income is fixed at €1,251.95/month for a person living alone or for the first person of the domestic unit (base amount). For the second adult, the base amount is uprated by 50% of €1,251.95/month (€625.98/month). For each subsequent adult, the base amount is uprated by €358.20/month. For each child, the base amount is uprated by €113.81/month.

When rent is due for an occupied flat, the guaranteed minimum income is increased by the difference between the rent paid and the amount corresponding to 10% of the guaranteed minimum income (*revenu minimum garanti*). The increase is limited to a maximum of €123.95/month.

The supplementary allowance is subject to taxation and to social contributions for health care and long-term care insurance.

**The income for seriously disabled persons** (*Revenu pour personnes gravement handicapées*) was created by the law of 12 September 2003. Persons entitled to this benefit must be at least 18 years old, must present a diminution of the ability to work by 30% due to physical, mental, sensorial or psychological disability; the disability has to be obtained before the age of 65. The state of health of the person must be at such a level that it is impossible to adapt a workplace in the ordinary or the protected environment to his needs. The person must be allowed to live in Luxembourg and must live there. Residents from a non-Member state have to show a 5-year long legal residence permit during the last 20 years. The income for a seriously disabled person is fixed at €1,251.95/month. Up to 30% of the reference minima are disregarded from the professional incomes and replacement incomes to compute the resources. The income for seriously disabled persons is subject to taxation and to social contributions for health care and long-term care insurance.

**The cost of living allowance** (*Allocation de vie chère*) replaced the formerly implemented heating allowance in 2009. This allowance is a means-tested allowance. To be eligible the global annual income must not exceed: € 20,731.39/year for a person living alone, €31,097.09/year for a two-person family, €37,316.51 year for a three-person family, €43,535.93/year for a four-person family and €49,755.35/year for a five-person or more family. The amount of the cost of living allowance is fixed at €1,320/year for a person living alone, €1,650/year for a two-person family, €1,980/year for a three-person family, €2,310/year for a four-person family and €2,640/year for a five-person or more family. The allowance is neither subject to taxation nor to social contributions.

**The higher education grant and/or loan** (*Bourse et/ou prêt d'études pour enseignement supérieur*) is provided to students who are registered in a University or a College (tertiary education).

The higher education grant (not simulated in EUROMOD, whatever the year under interest) has been reformed in 2011. The maximum amount a student can receive for the grant and /or the loan cannot exceed € 17,700/year (University year 2010/2011). The amount of the grant/loan depends *only* on the financial situation of the *student* him/herself. In parallel, children in higher education are no longer eligible for benefits related to families.

**Old-age pension from the general scheme** (*Pension de vieillesse du régime général*). A compulsory social insurance scheme financed by contributions with a participation of the State budget for the active population (employees and self-employed) with benefits depending on the duration of the affiliation (flat-rate) and on contributions (earnings-related). The legal retirement age is 65 years but an early retirement pension (*pension de vieillesse anticipée*) is possible from 60 years of age, on condition that 480 months of effective insurance can be proved or assimilated periods can be proved, and from 57 years of age, on condition that 480 months of effective insurance can be proved. The pension comprises two parts: a flat-rate part depending on the number of insurance years of 1/40 per year (max. 40) and an income- (and contributions-) related part. Flat-rate pension part (*majoration forfaitaire*) is computed on the basis of a ratio of a so-called “reference amount”; this part amounts to €414.95 per month for 40 years of insurance. Income-related pension part (*majoration proportionnelle*): 1.85% of total earnings taken into account. Staggered supplements (*majoration échelonnée*): beyond 55 years and with an effective carrier of 38 years, the rate is increased by 0.01% per supplement year in activity (maximum staggers supplements: 2.05%). The upper limit of the monthly old-age pension is 5 times the monthly minimum wage (€ 8,413.80/month). Allowance at the end of the year (*allocation de fin d'année*) of €669.36/year (in the case of a complete career of 40 years; otherwise proportional reduction). The pension is subject to taxation and to social contributions for health care and long-term care.

Since 2013, the rules have been slightly amended. Among other adaptations, the income-related pension part is based on a rate which will decrease through time from 1.85% (in 2013) down to 1.60% in 2052. However, the ratio founding the computation of the flat-rate pension part will increase from 23.5% in 2013 up to 28% in 2052.

**Survival pension from the general scheme** (*Pension de survie du régime général*). A compulsory social insurance scheme financed by contributions with a participation of the State budget for the active population (employees and self-employed) with benefits depending on the pension (flat-rate and earnings-related) of the deceased person. The pension comprises two parts: a flat-rate part depending on the number of insurance years of 1/40 per year (max. 40) and an income- (and contributions-) related part. The flat-rate pension part (*majorations forfaitaires*) and the special flat-rate supplements (*majorations forfaitaires spéciales*) equal the total to which the insured has or would have been entitled. The income-related pension part (*majorations proportionnelles*) and the special income-related supplements (*majorations proportionnelles spéciales*) equal  $\frac{3}{4}$  of the benefit to which the insured has or would have been entitled. There is an allowance at the end of the year (*allocation de fin d'année*) of €669.36/year (in the case of a complete career of 40 years; otherwise proportional reduction). The pension is subject to taxation and to social contributions for health care and long-term care.

**Invalidity pension from the general scheme** (*Pension d'invalidité du régime général*). A compulsory social insurance scheme financed by contributions with a participation of the State budget for the active population (employees and self-employed) with benefits depending on the duration of the affiliation (flat-rate) and on contributions (earnings-related). The pension comprises two parts: a flat-rate part depending on the number of insurance years of 1/40 per year (max. 40) and an income- (and contributions-) related part: flat-rate pension part (*majorations forfaitaires*): €414.95 per month for 40 years' insurance; income-related pension part (*majorations proportionnelles*): 1.85% of total wage taken into account. For invalidity before age of 55: special flat-rate supplements (*majorations forfaitaires spéciales*) of 1/40 for each year between commencement of entitlement to pension and age 65 (max. 40 years) and special income-related supplements (*majorations proportionnelles spéciales*) for years remaining from commencement of entitlement until age 55. The rate of the supplement is 1.85% of average salary gained between age 25 and the year of cessation. The pension is subject to taxation and to social contributions for health care and long-term care.

**Old-age pension from the statutory scheme** (*Pension de vieillesse du régime statutaire*). This scheme concerns civil servants and employees of the State administration, civil servants and employees of the Communes, employees of the CFL (train company) and employees of public institutions and institutions of public interest. One must distinguish the transitory scheme that concerns persons in activity or retired as of 31 December 1998 from the special scheme that concerns persons who started to work after 31 December 1998. For the transitory scheme, a right to old-age pension is open in the following situations: in the case of resignation from the age of 57 and a work duration of 40 years; in the case of resignation from the age of 60 and a work duration of 30 years; in the case of resignation at the age of 65 and a work duration of 10 years. The amount of the pension for the transitory scheme is calculated on the basis of the last wage: 5/6 of the last wage but for the years worked after 1 January 1999 the replacement rate will be progressively taken back to 72%. Nevertheless, civil servants with a complete career (35 or 40 years) at the age of the anticipated retirement (55 or 60 years) can increase their pension by 2.31%/supplement per year worked. The amount of the pension for the special scheme is calculated as for the general scheme except that there is no upper limit. There is an allowance at the end of the year (*allocation de fin d'année*) of €669.36/year (in the case of a complete career of 40 years; otherwise proportional reduction). The pension is subject to taxation and to social contributions for health care and long-term care.

**Survival pension from the statutory scheme** (*Pension de survie du régime statutaire*). The conditions to be eligible for a survival pension from the statutory scheme are similar to those foreseen for the general scheme and the reversion rates are also similar to those foreseen for the general scheme.

**Invalidity pension from the statutory scheme** (*Pension d'invalidité du régime statutaire*). The conditions to be eligible and the calculation of the pension for an invalidity pension survival pension from the statutory scheme are similar to those foreseen for the general scheme.

**Unemployment benefit** (*Indemnité de chômage*). An unemployment allowance scheme financed by the State with benefits related to remuneration previously earned. The main conditions for being eligible for the unemployment benefit are the following: to be involuntarily unemployed, work not permitted, unless part-time and with anti-accumulation rules applying, to be fit to work, to be available for work, to be aged between 16 and 64, to have registered for employment, to accept suitable employment or an active measure offered, to be resident in Luxembourg

when the redundancy occurs; claim for the benefit within 2 weeks. The qualifying period for this benefit is at least 26 weeks of employment during the last year. The benefit is determined by the salary earned before unemployment starts. The earnings taken are the gross earnings during the 3 months which precede unemployment. The allowance cannot exceed €4,802.58/month (2.5 times the monthly minimum wage) or €3,842.06/month (2 times the monthly minimum wage) in the case that the unemployment exceeds 182 days in a period of 12 months. In case of complementary benefit (when unemployment benefit is allowed after the 365 days of the normal duration of compensation) the ceiling is fixed at €2,881.55/month (1.5 times the monthly minimum wage). The rate of the benefit is 80% of reference earnings, increasing to 85% of earnings if there are dependent children. The duration of payment is 365 calendar days during a reference period of 24 months (without exceeding the duration of working days over the reference period); 182 extra calendar days for persons who are particularly "difficult" to place. For unemployed of 50 years and more, prolongation of 12, 9 or 6 months respectively if 30, 25 or 20 years of affiliation to pension. Loss of allowance for 7 days (30 days if repeated) if the unemployed person refuses to report to the employment office. Accumulation with other social security benefits is not possible. If income from a gainful professional activity exceeds 10% of the maximum threshold of the provided compensation, the unemployment benefit is reduced by the amount exceeding the provided ceiling. The benefit is subject to taxation and to social contributions for health care, long-term care insurance and pension insurance.

**Pre-retirement benefit** (*Indemnité de préretraite*). Pre-retirement compensation (*indemnité de préretraite*) permitting enterprises to dismiss structurally redundant workers and to re-equilibrate the age structure among the workers within an enterprise. Early retirement measures are also applied in the case of night- and shift-work. The indemnity is paid by employers and partially reimbursed by the employment fund. The eligibility conditions are the following: age 57, and having fulfilled in the 3 following years the conditions for an early retirement pension (*pension de vieillesse anticipée*), and fulfilling certain conditions related to the work record. The pre-retired must not exercise any professional activity other than insignificant or occasional activities. The rates of the benefit are a percentage of previous gross earnings, as follows: 85% during 1st 12 months, 80% during 2nd 12 months, 75% during 3rd 12 months. The benefit is subject to taxation and to social contributions for health care, long-term care insurance and pension insurance.

**Sickness benefit** (*Indemnité pécuniaire de maladie*). Compulsory social insurance scheme financed by contributions for all active population (employees and self-employed) with earnings-related benefits. The amount of the benefit is the full salary which the insured person would have earned if he had continued to work. The duration of the benefit is maximum 52 weeks. Payment ends if an invalidity pension (*pension d'invalidité*) is granted. The benefit is subject to taxation and to social contributions for health care, long-term care insurance and pension insurance.

**Maternity cash benefit** (*Indemnité de maternité*). Compulsory social insurance scheme financed by contributions for the active population (employees and self-employed, given that civil servants receive ordinary wage during that period) and the recipients of a social security benefit. Maternity benefit (*prestations en espèces de maternité*): 100% of the salary the insured received during the maternity leave. Maternity cash benefits are subject to taxation and to social contributions for health care, long-term care insurance and pension insurance. The benefit is subject to taxation and to social contributions for health care, long term care insurance and pension insurance.

**Parental leave benefit** (*Indemnité pour congé parental*). Both parents are entitled to take parental leave up to the child's fifth birthday providing they have worked for their employer, without a break, for at least one year. Leave can be taken as either 6 months full-time or 12 months part-time, i.e. 20 hours per week, (with employer's agreement) per child and to qualify, the first period of parental leave must start as soon as maternity leave ends. Parents cannot take parental leave simultaneously, e.g. if they both take part-time leave one parent must work in the morning and the other in the afternoon. The amount of the gross full-time parental leave benefit is €1,778.31/month and the amount of the gross part-time parental leave benefit is € 889.15/month. The benefit is not subject to taxation or to social contributions except to social contributions for health care (in kind) and long-term care contribution. Since December 2006 a new law was passed that gave parents the right to unpaid parental leave up to the child's fifth birthday should parental leave not have been taken immediately after maternity or adoption leave.

**Long-term care cash benefit** (*Prestation en espèce en cas de dépendance*). Compulsory long-term care social insurance financed by a special contribution from the insured and by the State, covering all persons bound by a

sickness insurance, with in kind and cash benefits. Benefits in kind can be combined or replaced by cash benefits. Cash benefits remunerate persons who are not working on behalf of a professional services network. The amount of the benefits totals half of the value of the benefit in kind. Benefit amount per hour: €25. Maximum cash benefits amount per week: €262.50. Benefits are not subject to taxation or to social contributions.

**Care allowance** (*Allocation de soins*). The law concerning this allowance has been abrogated, with effect from 1 January 1999, by the law concerning long-term care insurance. However, recipients of this allowance at 31 December 1998 continue to receive this allowance. But as soon as long-term care insurance is granted, the care allowance is cancelled. In June 2011 the amount of this allowance was €642.39/month.

**Seriously disabled persons allowance** (*Allocation spéciale pour personnes handicapées*). The law concerning this allowance has been abrogated, with effect from 1 January 1999, by the law concerning long-term care insurance. However, recipients of this allowance at 31 December 1998 continue to receive this allowance. But as soon as long-term care insurance is granted, the seriously disabled persons allowance is cancelled. In June 2011 the amount of this allowance was €642.39/month.

- *Scope and scale*

Table 5. Social benefits: resident recipients (as % of population)

	2011	2012	2013	2014
Maternity allowance	0.23	0.23	0.22	n/a
Birth grant	1.19	1.23	1.24	n/a
Child-raising allowance	1.04	0.97	0.95	n/a
Child benefit	21.50	21.17	n/a	n/a
Supplementary allowance	n/a	n/a	n/a	n/a
New school year allowance	14.16	14.15	n/a	n/a
Seriously disabled persons benefit	n/a	n/a	n/a	n/a
Guaranteed minimum income	3.50	3.69	n/a	n/a
Income for seriously disabled persons	0.15	0.14	0.13	n/a
Cost of living allowance	3.52	3.18	4.00	n/a
Higher education grants	n/a	n/a	n/a	n/a
Old-age pension from general scheme	9.52	9.65	9.81	n/a
Survival pension from general scheme	3.69	3.62	3.53	n/a
Invalidity pension from general scheme	1.94	1.86	1.78	n/a
Old-age pension from statutory scheme	2.00	2.02	2.01	n/a
Survival pension from statutory scheme	0.86	0.82	0.80	n/a
Invalidity pension from statutory scheme	0.43	0.41	n/a	n/a
Unemployment benefit	3.08	3.16	3.51	n/a
Pre-retirement benefit	0.24	0.22	0.22	n/a
Sickness benefit	n/a	n/a	n/a	n/a
Benefit for family reasons	n/a	n/a	n/a	n/a
Maternity cash benefit	0.61	0.63	0.63	n/a
Parental leave benefit	0.42	0.42	0.43	n/a
Long-term care cash benefit, care allowance and heavily handicapped person benefit	1.37	1.38	n/a	n/a
Permanent accident benefit	1.54	1.51	1.46	n/a

Notes: The % concerns only resident recipients. Recipients living abroad are excluded from the table.

Sources: [www.isog.public.lu](http://www.isog.public.lu) , STATEC, Ministry of Labor and Employment, SNAS, ADEM and own computations from IGSS Data warehouse

Table 6. Social benefits: expenditure (resident recipients only)

	2011	2012	2013	2014
<b>Annual expenditure (in millions €)</b>	4,498.58	4,779.41	4,748.78	n/a
as % of total expenditure				
Maternity allowance	0.08	0.08	0.08	n/a
Birth grant	0.24	0.23	0.24	n/a
Child-raising allowance	0.78	0.71	0.70	n/a
Child benefit	8.20	7.72	7.77	n/a
Boni for children	2.45	2.31	2.32	n/a
Supplementary allowance	0.07	0.07	0.08	n/a
New school year allowance	0.42	0.40	0.40	n/a
Seriously disabled persons benefit	n/a	n/a	n/a	n/a
Guaranteed minimum income	3.35	3.31	3.32	n/a
Income for seriously disabled persons	0.67	0.72	0.80	n/a
Cost of living allowance	1.27	1.24	1.26	n/a
Higher education grants	1.38	1.33	1.37	n/a
Old-age pension from general scheme	35.08	35.43	38.07	n/a
Survival pension from general scheme	10.26	9.98	10.28	n/a
Invalidity pension from general scheme	5.26	4.97	5.01	n/a
Old-age pension from statutory scheme	14.18	15.05	15.57	n/a
Survival pension from statutory scheme	3.58	3.41	3.44	n/a
Invalidity pension from statutory scheme	2.63	2.52	2.49	n/a
Unemployment benefit	3.67	4.05	n/a	n/a
Pre-retirement benefit	1.29	1.25	1.30	n/a
Sickness benefit	1.28	1.38	1.45	n/a
Benefit for family reasons	n/a	n/a	n/a	n/a
Maternity cash benefit	1.31	1.34	1.43	n/a
Parental leave benefit	0.80	0.74	0.78	n/a
Long-term care cash benefit, care allowance and heavily handicapped person benefit	0.80	0.82	0.90	n/a
Permanent accident benefit	0.95	0.93	0.96	n/a

Notes: The annual expenditure and the % concern only resident recipients. For some benefits no distinction is made between residents and non-residents in raw data; for these cases we have estimated the amounts received by residents. The annual expenditure is equal to the sum of the different components present in the table. According to the statistics produced by the Social Security, the annual expenditure for cash benefits (residents and non-residents) was equal to €6,400.8 million in 2011, out of which about 20% was transferred abroad, meaning that the annual expenditure for cash benefits towards the residents must be around €5,120 million in 2011.

Sources: [www.isog.public.lu](http://www.isog.public.lu), STATEC, Ministry of Labor and Employment, SNAS, ADEM and own computations from IGSS Data warehouse

### 1.3 Social contributions

**Social contribution for health care - cash benefits** (*Cotisations sociales pour soins de santé – prestations en espèce*) finance sickness and maternity cash benefits. All employees from the private sector are entitled to these social contributions. Civil servants who benefit from continuation of the salary in the case of sickness or maternity do not have to pay this social contribution. The contribution basis is composed of the professional income, i.e., the gross pay including all the advantages even if they are in kind but excluding occasional allowances and bonuses. There is also a ceiling for the contribution basis that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€ } 1,757.56/\text{month} = \text{€ } 8,787.8/\text{month}$ .

Since 2009, a uniform status (*statut unique*) has been introduced for blue- and white-collar workers. Since the "statut unique", both white-collar and blue-collar workers continue to receive pay - imposed on the employer for the month in which the sickness occurs and for the following three months.

This status is also progressively leading to uniform contribution rates. However, during a transitory period, some differences are maintained: for example, the employee's contribution rate is fixed to 0.25% for both classes of workers since 2009, with an additional contribution for (former) blue-collar workers which is 2.1% up to 2011 (hence a total contribution rate of  $0.25\% + 2.1\% = 2.35\%$ ), 1% in 2012 and 0% after that.

The employer's contribution rate involves a fix part (0.25% for all employers since 2009) and a variable part funding the so-called *Mutualité des employeurs* and depending on the "class of risk" regarding absenteeism within the firm. The corresponding variable part of rate was comprised between 0.62% and 2.38% in 2011. However, given lack of data and for simplicity reasons, we have implemented an average variable rate only, changing through time: 1.5% in 2011, 1.61% in 2012, 1.53% in 2013 and 1.55% in 2014.

**Social contribution for health care - benefits in kind** (*Cotisations sociales pour soins de santé- prestations en nature*). The contribution basis is composed of the professional incomes defined above, including occasional allowances and bonuses, pensions and all replacement incomes subject to social contributions. The contribution rate is 5.6% in total in 2011: 2.8% for the insured and 2.8% for the employer. For the contribution basis there is a ceiling that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€ } 1,757.56/\text{month} = \text{€ } 8,787.8/\text{month}$ .

**Social contribution for long-term care insurance** (*Cotisations sociales pour l'assurance dépendance*). The contribution basis is composed of professional incomes, replacement incomes and wealth incomes. The contribution rate amounts to 1.40 % for employees (there is no employer contribution). No maximum is applied to the contribution basis. The monthly contribution basis is reduced by 25% of the minimum wage for persons receiving a wage or a replacement income from the social security.

**Social contribution for pension insurance** (*Cotisations sociales pour pension*). The contribution basis is composed of professional incomes or the following replacement incomes (unemployment benefit, sickness benefit, maternity benefit, parental leave benefit). The contribution rate is 24% in total: 8% for the insured, 8% for the employer and 8% for the State. For the contribution basis there is a ceiling (except for the civil servants) that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€ } 1,757.56/\text{month} = \text{€ } 8,787.8/\text{month}$ .

**Employer social contributions for accident** (*Cotisations sociales de l'assurance accident*). These contributions are paid exclusively by the employer. All industrial firms are ranged in 22 risk classes. Since 2011, the rate is uniform with a level of 1.15% in 2011 and 2012, 1.10% since 2013. For the contribution basis there is a minimum that corresponds in principle to the minimum wage. In the case of a part-time job, the minimum is reduced proportionally regarding the duration of the job. There is also a ceiling that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€ } 1,757.56/\text{month} = \text{€ } 8,787.8/\text{month}$ . Concerning the agricultural or forestry sector, the contributions are calculated according to the size of the land, the vineyard or the forest.

**Social contributions for family allowances** (*Cotisations sociales pour les prestations familiales*). These contributions are paid neither by the employees nor by the employers but by the State.

- *Scope and scale*

Table 7. Social contributions: resident contributors (as % of population)

	2011	2012	2013	2014
<b>Social contributions</b>				
Social contribution health care - cash benefits	33.33	33.49	n/a	n/a
Social contribution health care - benefits in kind	58.92	59.18	n/a	n/a
Social contribution long-term care insurance	58.92	59.18	n/a	n/a
Social contribution for pension insurance	n/a	n/a	n/a	n/a
Social contribution for accident insurance	37.46	37.34	n/a	n/a
Social contribution for family allowances	n/a	n/a	n/a	n/a

Notes: The % concern only resident contributors.

Sources: [www.isog.public.lu](http://www.isog.public.lu), STATEC, Ministry of Labor and Employment, SNAS, ADEM and own computations from IGSS Data warehouse

Table 8. Social contributions: revenue

	2011	2012	2013	2014
<b>Social contributions (millions of €)</b>	2,749.33	2,910.77	n/a	n/a
as % of total revenue				
Social contribution health care - Total	36.28	38.42	n/a	n/a
Social contribution health care - cash benefits (employee and employer)	781.16	823.34	n/a	n/a
Social contribution health care - benefits in kind (employee and employer)	182.39	192.09	n/a	n/a
Social contribution long-term care insurance (employee and employer)	1,601.23	1,699.59	n/a	n/a
Social contribution for pension insurance (employee and employer)	111.44	118.81	n/a	n/a
Social contribution for accident insurance (employer)	36.83	38.52	n/a	n/a
Social contribution for family allowances (employer and self-employed)	36.28	38.42	n/a	n/a

Notes: The % and amounts concern only resident contributors.

Sources: [www.isog.public.lu](http://www.isog.public.lu), STATEC, Ministry of Labor and Employment, SNAS, ADEM and own computations from IGSS Data warehouse

## 1.4 Taxes

**Personal income tax** (*Impôt sur le revenu des personnes physiques*): taxed jointly at the family units. The family unit is defined by the marriage or the legal consensual union and children less than 18 years old on 1 January of the tax year. However, wages received by a child less than 18 years old are not covered by the joint taxation.

Tax payers are granted a tax class according to their family status. Married taxpayers (even in the case of a wedding or divorce during the calendar year), widowed persons for the 3 years following the year in which they became widowed, divorced or separated individuals for the 3 years following the year of divorce or separation and civil partners who live together for a full tax year and elect to file jointly, belong to tax class 2.

Widowed persons not included in tax class 2, individuals aged at least 65 on 1 January and single parents belong to tax class 1a.

All other individuals belong to tax class 1.

For tax class purposes, a child is less than 21 years old on 1 January of the tax year or 21 years old and more continuing to study.

In Luxembourg, the tax year corresponds to the calendar year. Income tax rates are progressive. They vary from 0% to 39% (17 brackets) in 2011. Since 2013, a tax bracket has been added for higher incomes (tax rate: 40%).

Since 2011, a surcharge for the unemployment fund is applied. It is either 4% or 6%, depending on the level and tax class of income. The same system prevails from 2013 on, but with rates set to 7% and 9% respectively.

In 2011, a “crisis contribution” was introduced which may represent up to 0.8% of income (all kinds). This contribution was removed since 2012.

There are eight categories of taxable income which, added together over the year, determine the total taxable income: Commercial/business profits; Profits from agriculture and forestry; Profits derived from self-employed professions (*profession libérale*); Net income from employment; Net income from pensions and/or annuities; Net income from investments (movable capital); Net income from rental of property and Other net income (including capital gains).

Withholding taxes are levied on some of the incomes above. Income from employment, pensions and some savings and investment incomes are subject to a pay-as-you-earn system. Other income must be declared in an annual tax return, submitted to the Luxembourg Tax Administration.

The income subject to tax according to the tax schedule (*revenu imposable ajusté*) is equal to the net income of the different categories of incomes after deduction of operating expenses, accusation costs, exemptions and several deductions.

The salary of a child less than 18 years old is taxed individually but parents are eligible to a tax reduction for this child. All other types of income received by a child less than 18 years old are added together with the parent's incomes.

Children aged 18 to 21 years are taxed individually but parents are eligible to a tax reduction for children.

**Property tax** (*Impôt foncier*): the property tax is a communal tax that applies to all the constructed or non-constructed real properties. The amount of this tax is very low.

**Value Added Tax** (*Taxe sur la valeur ajoutée*): there are 4 different tax rates: normal rate at 15%, a reduced rate at 6%, a super-reduced rate at 3% and an intermediate rate at 12%.

**Excise duties** (*Accises et taxes assimilées*): These taxes are levied on alcohol and alcoholic beverages, beer, tobacco, petrol, gas and electrical energy.

- *Scope and scale*

Table 9. Taxes: taxpayers (as % of population)

No information is available to estimate taxpayers as % of population

Table 10. Taxes: revenue

	2011	2012	2013	2014
<b>Annual revenue (millions of €)</b>	11,248	11,928	12,711	n.a.
<b>Direct taxes</b>				
Taxes on income and profits, on Individuals (then out of corporate)	3,544	3,699	4,069	n.a.
Personal income tax	n.a.	n.a.	n.a.	n.a.
Solidarity income tax increase for persons	n.a.	n.a.	n.a.	n.a.
Withholding personal tax	n.a.	n.a.	n.a.	n.a.
Recurrent taxes on immovable property	31	33	31	n.a.
<b>Indirect taxes</b>				
VAT	2,766	3,068	3,458	n.a.
Excise duties	1,499	1,530	1,484	n.a.

Notes: The annual revenue numbers reported in the first line are exclusive of revenue from social insurance contributions. The numbers reported in Table 10 include tax paid by non-residents.

Source: OECD Revenue Statistics 1965-2013 – details of tax revenue, Luxembourg

## 2. SIMULATION OF TAXES AND BENEFITS IN EUROMOD

*General remark:*

*All amounts and qualitative information mentioned below correspond to the year 2011 (as on June 30<sup>th</sup>, when relevant), unless otherwise stipulated.*

## 2.1 Scope of simulation

Tables 11 and 12 present the different benefits (Table 11) and taxes (Table 12) covered in EUROMOD.

Table 11. Simulation of benefits in EUROMOD

	Variable name(s)	Treatment in EUROMOD (2011-2014)	Why not fully simulated?
Maternity Allowance	bmals	I	No precise information on the contribution history just before the birth
Birth grant	bmaba	I	No information on medical examinations
Child-raising Allowance	bched04	I	No precise information on the contribution history before the child is 2 years old
Allowance for looked after children in families	bched05	I	Target cannot be identified
Child benefit	bfauc_s	S	
Child credit	bch00_s	S	
New school year allowance	bched01_s	S	
Seriously disabled persons benefit	bdisv	I	No information on disability
Guaranteed minimum income	bsacm_s	S	
Heating allowance / Cost of living allowance	bsaht_s	S	
Higher education grants	bed_s	I	Might be simulated in the near future; however, presently just copied from input (bed)
Old-age pension from general scheme	poaps	I	No data on contribution history
Survival pension from general scheme	psups	I	No data on contribution history
Invalidity pension	pdi00	I	No data on contribution history and on disability
Old-age pension from statutory scheme	poapu	I	No data on contribution history
Survival pension from statutory scheme	psupu	I	No data on contribution history
Unemployment benefit	bunss or bunss_s	PS	No data on contribution history / Simulation possible according to the fact that the wage preceding the unemployment benefit has been estimated in the input database (yempv) using the reverse function of the unemployment benefit rules
Pre-retirement benefit	byr	I	No data on contribution history
Sickness benefit	bhl	I	No data on contribution history and on sickness
Maternity cash benefit	bmawk	I	No data on contribution history
Parental leave benefit	bfapl	I	No data on the intention to take the parental leave
Long-term care cash benefit	bca02	I	No data on the level of dependency
Care allowance	bca01	I	No data on the level of dependency

Notes: “-”: policy did not exist in that year; “E”: *excluded* from the model as it is neither included in the micro-data nor simulated; “I”: *included* in the micro-data but not simulated; “PS” *partially simulated* as some of its relevant rules are not simulated; “S” *simulated* although some minor or very specific rules may not be simulated.

Table 12. Simulation of taxes and social contributions in EUROMOD

	Variable name(s)	Treatment in EUROMOD		Why not fully simulated?
		2011	2012-2014	
Personal income tax	tin_s	S	S	
Tax credit for employees	tintceent_s	S	S	
Tax credit for retired	tintcpent_s	S	S	
Tax credit for lone parents	tintclpnt_s	S	S	
Contribution to unemployment fund	tinui_s	S	S	
Crisis contribution	tinxt_s (tax specific to 2011)	-	S	
Property tax		E	E	No information on the way the administration estimates the value of the property
Value added tax		E	E	No information on expenditures
Excise duties		E	E	No information on expenditures
Employee social contribution for health care - cash benefits	tsceesi_s	S	S	
Employee social contribution for health care - benefits in kind	tsceehl_s	S	S	
Employee social contribution for long-term care insurance	tsceeot_s	S	S	
Employee social contribution for pension insurance (non civil servant)	tsceepi_s	S	S	
Employee social contribution for pension insurance (civil servant)	tsceepbpi_s	S	S	
Employer social contribution for health care - cash benefits	tscersi_s	S	S	
Employer social contribution for health care - benefits in kind	tscerhl_s	S	S	
Employer social contribution for pension insurance	tscerpi_s	S	S	
Employer social contribution for accident insurance	tscerac_s	S	S	
Employer social contribution for accident insurance	tscerac_s	S	S	
Credited social contributions for health care- benefits in kind	tsccthl_s	S	S	
Credited social contributions for pension insurance	tscctpi_s	S	S	

Social contributions on social assistance – long term care insurance	tsceebeot_s	S	S
Credited social contributions for social assistance – long term care insurance	tscctsi_s	S	S
Self-employed social contribution for health care - cash benefits	tscsesi_s	S	S
Self-employed social contribution for health care - benefits in kind	tscsehl_s	S	S
Self-employed social contribution for long-term care insurance	tscseot_s	S	S
Self-employed social contribution for pension insurance	tscsepi_s	S	S
Self-employed social contribution for accident insurance	tscseac_s	S	S

Notes: “-” policy did not exist in that year; “E” policy is *excluded* from the model’s scope as it is neither included in the microdata nor simulated by EUROMOD; “PS” policy is *partially simulated* as some of its relevant rules are not simulated; “S” policy is *simulated* although some minor or very specific rules may not be simulated.

- **Structural changes in 2011 and 2012**

A new tax bracket is introduced for higher incomes in 2011 (tax rate: 39%) and the surcharge for the unemployment fund is increased (from 2.5% to 4% or 6%, depending on the level of income and tax class). In 2011, a “crisis contribution” is introduced (max 0.8% of income, all kinds). This contribution is removed since 2012.

- **Structural changes between 2012 and 2013**

A new tax bracket is introduced for higher incomes (tax rate: 40%)

- **Structural changes between 2013 and 2014**

None

## 2.2 Order of simulation and interdependencies

- **Order of simulation in 2011-2014**

The following table shows the order in which the main elements of the Luxembourg system in 2011-2014 are simulated. As the Luxembourg system has few structural changes within this period, we use a single table to display policy simulations over the four year span. In general, the spine structure is identical for all four analysed years.

Table 13. EUROMOD Spine: order of simulation, 2011-2014

Policy	Description	Main output
bunss_lu	Unemployment benefit	bunss_s
bsacm_lu	Guaranteed minimum income (RMG)	bsacm_s
tscee_lu	Employee social contribution	tscee_s
tscer_lu	Employer social contribution	tscer_s
tscct_lu	Credited social contributions	tscct_s
tscse_lu	Self-employed social contributions	tscse_s
tsceebeot_lu	Long term care contribution related to RMG	tsceebeot_s
tsctsi_lu	Credited social contributions for social assistance	tsctsi_s
bch00_lu	Child tax credit (since 2008 only)	bch00_s
bfauc_lu	Child benefit	bfauc_s
bched01_lu	New school year allowance	bched01_s
bsaht_lu	Heating allowance	bsaht_s
tin_lu	Personal income tax	tin_s
bed_lu	Scholarship for higher education	bed_s
tintcee_lu	Tax credit for employees (since 2009 only)	tintceent_s
tintpe_lu	Tax credit for retired (since 2009 only)	tintpent_s
tintclp_lu	Tax credit for lone parent (since 2009 only)	tintclpnt_s

### 2.3 Policy switches

None.

### 2.4 Social benefits

#### 2.4.1 Child benefit (*Allocations familiales*) (*bfauc\_lu*)

- *Definitions*

The unit of analysis is the family (*tu\_cb\_lu*), which is composed of parents and their dependent children (see Eligibility conditions below). To form a family, parents do not necessarily have to be married.

- *Eligibility conditions*

The child benefit is a universal scheme. A child's personal rights are related to the residence. Each child brought up continuously in Luxembourg and with a legal residence there is entitled to this child benefit. The age limit is 18 years. For children in vocational training or further education or suffering from a serious infirmity the age limit is 27 years.

Since 2011, children in higher education are no longer eligible (see Section 1.3).

- *Income test*

The child benefit does not vary with income.

- *Benefit amount*

The monthly amount is €185.60 for one child, €440.72 for two children, €802.74 for three children and €361.82 for each subsequent child. The child benefit does not vary with income. The child benefit varies with age: children aged 6 and more receive a supplement of €16.17/month and children aged 12 and more receive a supplement of

€48.52/month. The benefit is not subject to taxation or to social contributions. Since 2006, the amount of this allowance is no longer linked to changes in prices, meaning that the amounts are similar for the years 2007 up to 2014.

#### 2.4.2 Tax bonus for children (*Boni pour enfant*) (*bch00\_lu*)

- *Definitions*

The tax bonus has been introduced in 2008, it replaced the tax reduction for children and it is paid by the family allowance fund. That is why the tax bonus is classified in the benefit section rather in the tax credit section. The unit of analysis is the same as that used for the personal tax (see “tu\_tin\_lu” in *Section 2.6.1*).

- *Eligibility conditions*

The tax bonus for children is awarded in favour of each child for whom the child benefits are paid. Children to whom the child benefits are no longer paid, are not eligible for the tax bonus for children. These children continue to be eligible for the tax reductions for children.

Since 2011, children in higher education are no longer eligible (see *Section 1.3*).

- *Income test*

The tax bonus for children does not vary with income.

- *Benefit amount*

Since 2008, the monthly amount is €76.88 (€922.56/year) per child. The benefit is not subject to taxation or to social contributions and is not linked to changes in prices, meaning that the amounts are similar for the years 2008 up 2014.

**EUROMOD Notes:** The condition of being a child not eligible for the tax bonus but who continues to be eligible for the tax reduction for children is not simulated. It concerns very few cases.

#### 2.4.3 New school year allowance (*Allocation de rentrée scolaire*) (*bched01\_lu*)

- *Definitions*

The unit of analysis is the family (tu\_cb\_lu, see *Section 2.4.1*). The new school year allowance (*Allocation de rentrée scolaire*) aims to compensate costs related to the new school year.

- *Eligibility conditions*

This allowance is given to children over 6 years. Except for the age condition, the eligibility conditions are similar to those for the child benefit.

- *Income test*

This allowance does not vary with income.

- *Benefit amount*

The amount of this allowance varies with the age and the size of the family group.

For one child:

6 - 11 years: €113.15/year

12 years and more: €161.67/year

For two children (amount per child):

6 - 11 years: €194.02/year

12 years and more: €242.47/year

For three or more children (amount per child):

6 - 11 years: €274.82/year

12 years and more: €323.34/year. Since 2006, the amount of this allowance is no longer linked to changes in prices, meaning that the amount is similar for the years 2007 up to 2014.

#### 2.4.4 Social assistance (*Revenu minimum garanti*) (*bsacm\_lu*)

- **Definitions**

The guaranteed minimum income can be either an integration allowance (*indemnité d'insertion*) or a supplementary allowance aiming to compensate the difference between the highest amounts of the guaranteed minimum income and the sum of the household resources. The simulation concerns only the supplementary allowance, the most current situation. The integration allowance can be considered as a salary.

The domestic unit for the calculation of resources is defined by the "de facto" community of all the persons living in the same common household, obviously disposing of a common budget and unable to provide evidence that they live elsewhere (*tu\_bsa\_lu*).

For social assistance a dependent child is defined as a person less than 18 years old or less than 27 years old and in education or disabled.

- **Eligibility conditions**

The eligibility conditions concern i) residence (persons resident on Luxembourg territory and having resided in the country for at least 5 years during the last 20 years. This residence condition is not required for EU or EEA citizens or for refugees); ii) age (with effect from 25 years; exceptions for persons unable to work, those who are looking after a child or an invalid); iii) willingness to work (to be ready to participate in active measures); iv) should not have abandoned or reduced his work of his own free will, without giving important and real justifications or should not have been dismissed for serious reasons.

- **Income test**

The resources taken into account are the entire gross revenue of the household, possessions and replacement or supplementary social security benefits. Family allowances, maternity benefits, long-term care benefits and professional income of children less than 25 years old up to the guaranteed minimum income for a person living alone (€1251.95/month) are not taken into account. However, to avoid inactivity traps, up to 30% of the reference minima are disregarded from the professional incomes and replacement incomes to compute the resources.

The resources of wealth are also taken into account. These resources are defined by conversion into a life annuity of the global value of the wealth through multipliers that have to be defined by the State. The real estate value of property situated in Luxembourg is defined according to the unit values fixed by the tax administration. Due to lack of information, the resources of wealth are not simulated.

- **Benefit amount**

The guaranteed minimum income is fixed at €1251.95/month for a person living alone or for the first person of the domestic unit (base amount). For the second adult, the base amount is uprated by 50% of €1251.95/month (€625.98/month). For each subsequent adult, the base amount is uprated by €358.20/month. For each child, the base amount is uprated by €113.81/month.

Where rent is due for an occupied flat, the difference between the rent paid and the amount corresponding to 10% of the guaranteed minimum income (*revenu minimum garanti*) is granted additionally. Maximum: €123.95/month.

The supplementary allowance is subject to taxation and to social contributions for health care and long-term care insurance.

	First adult	Second adult	Subsequent adult	Child	Maximum supplement in case of tenant
2011	1251.95 €	625.98 €	358.20 €	113.81 €	123.95 €
2012	1283.24 €	641.62 €	367.15 €	116.66 €	123.95 €
2013	1315.31 €	657.65 €	376.32 €	119.57 €	123.95 €
2014	1348.18 €	674.09 €	385.73 €	122.56 €	123.95 €

#### 2.4.5 Expensive life allowance (*Allocation de vie chère*) (*bsaht\_lu*)

*NB: formerly (prior to 2009) “Heating allowance”, hence policy name*

- **Definitions**

The expensive life allowance (*Allocation de chauffage*) aims to support the cost of living for low income families. The unit of analysis is the household (*tu\_household\_lu*).

- **Eligibility conditions**

The eligibility conditions concern residence (persons resident on Luxembourg territory).

- **Income test**

This allowance is a means-tested allowance. To be eligible the global annual income must not exceed: € 20,731.39/year for a person living alone, €31,097.09/year for a two-person family, €37,316.51/year for a three-person family, €43,535.93/year for a four-person family and €49,755.35/year for a five-person or more family.

- **Benefit amount**

	One-person household		Two-person household		Three-person household		Four-person household		Five-person household and more	
	Upper limit €/year	Benefit €/year	Upper limit €/year	Benefit €/year	Upper limit €/year	Benefit €/year	Upper limit €/year	Benefit €/year	Upper limit €/year	Benefit €/year
2011 (*)	20,731.39	1,320	31,097.09	1,650	37,316.51	1,980	43,535.93	2,310	49,755.35	2,640
2012	21692.2	1,320	32538.3	1,650	39,045.96	1,980	45,553.62	2,310	52,061.28	2,640
2013	22506.6	1,320	33759.9	1,650	40,511.88	1,980	47,263.86	2,310	54,015.84	2,640
2014	23069.06	1,320	34603.59	1,650	41,524.31	1,980	48,445.03	2,310	55,365.75	2,640

(\*) *NB: a break in series can be noted between 2010 and 2011, making comparisons with 2010 figures (in other EUROMOD documentation) irrelevant.*

The amount of the expensive life allowance is fixed at €1,320/year for a person living alone, €1,650/year for a two-person family, €1,980/year for a three-person family, €2,310/year for a four-person family and €2,640/year for a five-person or more family. The allowance is not subject to taxation or to social contributions.

Persons with an income higher than the limits defined in the “income test” paragraph are entitled to a reduced allowance that corresponds to the difference between the amounts of the expensive life allowance and the part of the annual income that exceeds the income limits.

### 2.4.6 Unemployment benefit (*Indemnité de chômage*) (*bunss\_lu*)

- **Definitions**

The unemployment benefit (*indemnité de chômage*) is a benefit related to remuneration previously earned. The unit of analysis is the individual (*tu\_individual\_lu*).

- **Eligibility conditions**

The main conditions for being eligible for the unemployment benefit are the following: to be involuntarily unemployed, work not permitted, unless part-time and with anti-accumulation rules applying, to be fit to work, to be available for work, to be aged between 16 and 64, to have registered for employment, to accept suitable employment or an active measure offered, to be resident in Luxembourg when the redundancy occurs; claim for the benefit within 2 weeks. The qualifying period for this benefit is at least 26 weeks of employment during the last year.

- **Income test**

None.

- **Benefit amount**

The benefit is determined by the salary earned before unemployment starts. The earnings taken are the gross earnings during the 3 months which precede unemployment. The allowance cannot exceed 2.5 times the minimum wage (€4,393.90/month) or 2 times the minimum wage (€3,515.12/month) in the case that the unemployment exceeds 182 days in a period of 12 months. For the period of complementary benefit (in case of unemployment benefit is allowed after the 356 days of the normal duration of compensation) the ceiling is fixed at 1.5 times the minimum wage (€2,636.34/month). The rate of the benefit is 80% of reference earnings, increasing to 85% of earnings if there are dependent children. The duration of payment is 365 calendar days during a reference period of 24 months (without exceeding the duration of working days over the reference period); 182 extra calendar days for persons who are particularly "difficult" to place. For unemployed of 50 years and more, prolongation of 12, 9 or 6 months respectively if 30, 25 or 20 years of affiliation to pension. Loss of allowance for 7 days (30 days if repeated) if the unemployed person refuses to report to the employment office. Accumulation with other social security benefits is not possible (\*). If income from a gainful professional activity exceeds 10% of the maximum threshold of the provided compensation, the unemployment benefit is reduced by the amount exceeding the provided ceiling (\*). The benefit is subject to taxation and to social contributions for health care, long-term care insurance and pension insurance.

**EUROMOD Notes:** No information concerning the salary earned before unemployment starts and other eligibility conditions is available. To make it possible to simulate unemployment benefit, an inverse function of the unemployment benefit for the current recipients of the benefit has been implemented in order to estimate the salary earned before unemployment starts. From the estimated salary earned before unemployment starts it is then possible to estimate the unemployment benefit using the 80% or 85% replacement rate. Concerning the ceiling of the benefit, it is only possible to use 2.5 times the minimum wage. (\*) Moreover, due to difficulty of implementation, both the accumulation rule with other social security benefit and the rule on benefit reduction if income from professional activity exceed 10% of the benefit amount are not simulated yet in the present version.

### 2.5 Social contributions

Social contributions are compulsorily paid by insured persons and, if appropriate, by their employers. Social contributions are calculated on the basis of the professional incomes (or replacement incomes) through an equal contributions rate independently from the individual situation (age, gender, family situation, health status) but

depending on the risks insured (health, sickness and maternity, pension, long-term care, accident) and the socio-professional categories (blue-collar, white collar, civil servant, self-employed, farmers...). Unlike in many other countries, unemployment benefits are not financed by social contributions but by income tax.

### 2.5.1 Employee social contributions (*tscee\_s*)

Employee social contributions are composed of social contributions for health care – cash benefits (*tsceesi\_s*), social contributions for health care – benefits in kind (*tsceehl\_s*), social contributions for pension (*tsceepi\_s* and *tsceepbpi\_s*) and social contributions for long-term care (*tsceoot\_s*). Social contributions are paid on an individual basis (*tu\_individual\_lu*).

**Social contribution for health care - cash benefits** (*Cotisations sociales pour soins de santé –prestations en espèce*) finance sickness and maternity cash benefits. All employees from the private sector are entitled to these social contributions. Civil servants who benefit from continuation of the salary in the case of sickness or maternity do not have to pay this social contribution. The contribution basis is composed of the professional income, i.e., the gross pay including all the advantages even if they are in kind but excluding occasional allowances and bonuses. There is also a ceiling for the contribution basis that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€ } 1,757.56/\text{month} = \text{€ } 8,787.8/\text{month}$ .

Since 2009, a uniform status (*statut unique*) has been introduced for blue- and white-collar workers. Since the "statut unique", both white-collar and blue-collar workers continue to receive pay - imposed on the employer for the month in which the sickness occurs and for the following three months.

This status is also progressively leading to uniform contribution rates. However, during a transitory period, some differences are maintained: for example, the employee's contribution rate is fixed to 0.25% for both classes of workers since 2009, with an additional contribution for (former) blue-collar workers which is 2.1% up to 2011 (hence a total contribution rate of  $0.25\% + 2.1\% = 2.35\%$ ), 1% in 2012 and 0% after that.

	Rate for blue-collar workers	Rate for white-collar workers	Minimum contributory amount	Maximum contributory amount	Value of the minimum wage (MW)
2011	2.35%	0.25%	MW	5 x MW	1,757.56€/month
2012	1.25%	0.25%	MW	5 x MW	1,801.49€/month
2013		0.25%	MW	5 x MW	1,874.19€/month
2014		0.25%	MW	5 x MW	1,921.03€/month

**EUROMOD Notes:** The contribution basis is composed of the professional income, i.e., the gross pay including all the advantages even if they are in-kind but excluding occasional allowances and bonuses. However, for the simulation we consider only the gross pay and not the fringe benefits.

**Social contribution for health care - benefits in kind** (*Cotisations sociales pour soins de santé- prestations en nature*). The contribution basis is composed of the professional incomes defined above including occasional allowances and bonuses, the pensions and all replacement incomes subject to social contributions. The contribution rate is 5.6% in total in 2011: 2.8% for the insured and 2.8% for the employer. For the contribution basis there is a minimum that corresponds in principle to the minimum wage (for a full-time job). In the case of a part-time job, the minimum is reduced proportionally regarding the duration of the job. The minimum is increased by 30% for persons receiving a pension. If the pension does not reach the minimum, the contribution basis is the effective amount of the pension and the institution that pays the pension will pay the difference. There is also a ceiling for the contribution basis that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€ } 1,757.56/\text{month} = \text{€ } 8,787.8/\text{month}$ .

	Rate	Minimum contributory amount*	Maximum contributory amount	Value of the minimum wage (MW)
2011	2.8%	MW	5 x MW	1,757.56€month
2012	2.8%	MW	5 x MW	1,801.49€month
2013	2.8%	MW	5 x MW	1,874.19€month
2014	2.8%	MW	5 x MW	1,921.03€month

\*MW+30% for pensioners

**Social contribution for long-term care insurance** (*Cotisations sociales pour l'assurance dépendance*). The contribution basis is composed of the professional incomes, the replacement incomes and the wealth incomes. The contribution rate amounts to 1.40 % for employees (there is no employer contribution). No maximum is applied to the contribution basis. The monthly contribution basis is reduced by 25% of the minimum wage for persons receiving a wage or a replacement income from the social security.

	Rate	Amount disregarded for wage earner or recipients of a replacement income from the social security	Value of the minimum wage (MW)
2011	1.4%	25% MW	1,757.56€month
2012	1.4%	25% MW	1,801.49€month
2013	1.4%	25% MW	1,874.19€month
2014	1.4%	25% MW	1,921.03€month

**Social contribution for pension insurance** (*Cotisations sociales pour pension*). The contribution basis is composed of the professional incomes or by the following replacement incomes (unemployment benefit, sickness benefit, maternity benefit, parental leave benefit). The contribution rate is 24% in total: 8% for the insured, 8% for the employer and 8% for the State. For the contribution basis there is a minimum that corresponds in principle to the minimum wage (for a full-time job). In the case of a part-time job, the minimum is reduced proportionally regarding the duration of the job. There is also a ceiling for the contribution basis that corresponds to 5 times the minimum wage, which means for June 2011: 5 x €1,757.56/month = €8,787.80/month. Nevertheless, there is no ceiling for civil servants.

	Rate	Minimum contributory amount	Maximum contributory amount	Value of the minimum wage (MW)
2011	8%	MW	5 x MW	1,757.56€month
2012	8%	MW	5 x MW	1,801.49€month
2013	8%	MW	5 x MW	1,874.19€month
2014	8%	MW	5 x MW	1,921.03€month

### 2.5.2 Employer social contributions (*tscer\_s*)

Employer social contributions are composed of social contributions for health care – cash benefits (*tscersi\_s*), social contributions for health care – benefits in kind (*tscerhl\_s*), social contributions for pension (*tscerpi\_s*) and social

contributions for an accident (*tscerac\_s*). Except for the contributions for an accident, the rules for the other employer social contributions are exactly the same as those concerning employee social contributions.

**Social contribution for health care - cash benefits** (*Cotisations sociales pour soins de santé –prestations en espèce*)  
Regarding health care – cash benefits, the participation of the employers to the "Mutualité des employeurs" has been made compulsory since 2009, due to the new "statut unique". The employer's contribution rate involves a fix part (0.25% for all employers since 2009) and a variable part funding the so-called *Mutualité des employeurs* and depending on the "class of risk" regarding absenteeism within the firm. The corresponding variable part of rate was comprised between 0.62% and 2.38% in 2011.

	Rate (1)
2011	0.25% + 1.50%
2012	0.25% + 1.61%
2013	0.25% + 1.53%
2014	0.25% + 1.55%

(1) **EUROMOD Notes:** Given lack of data and for simplicity reasons, we have implemented an unweighted average variable rate only, changing through time: 1.5% in 2011, 1.61% in 2012, 1.53% in 2013 and 1.55% in 2014.

**Social contribution for health care - benefits in kind** (*Cotisations sociales pour soins de santé- prestations en nature*). See "Employee social contributions", Section 2.5.1.

**Employer social contributions for accident** (*Cotisations sociales de l'assurance accident*). These contributions are paid exclusively by the employer. All industrial firms are ranged in 22 risk classes. Since 2011, the rate is uniform with a level of 1.15% in 2011 and 2012, 1.10% in 2013 and 2014. For the contribution basis there is a minimum that corresponds in principle to the minimum wage (for a full-time job). In the case of a part-time job, the minimum is reduced proportionally regarding the duration of the job. There is also a ceiling for the contribution basis that corresponds to 5 times the minimum wage, which means for June 2011: 5 x €1,757.56/month = €8,787.8/month. Concerning the agricultural or forestry sector, the contributions are calculated according to the size of the land, the vineyard or the forest.

	Rate
2011	1.15%
2012	1.15%
2013	1.10%
2014	1.10%

### 2.5.3 Self-employed social contributions (*tscse\_s*)

Self-employed social contributions are composed of social contributions for health care – cash benefits (*tscsesi\_s*), social contributions for health care – benefits in kind (*tscsehl\_s*), social contributions for pension (*tscsepi\_s*), social contributions for long-term care (*tscseot\_s*) and social contributions for accident (*tscseac\_s*). Social contributions are paid on an individual basis (*tu\_individual\_lu*).

**Social contribution for health care - cash benefits** (*Cotisations sociales pour soins de santé –prestations en espèce*)  
finance sickness and maternity cash benefits. The contribution basis is composed of the professional income of the insured person. For the self-employed, excluding agricultural activity, the professional income corresponds to the net

income defined by the tax law. For the agricultural self-employed, the professional income is fixed on the basis of the production. The contribution rate is 0.50% since 2009. For the contribution basis there is a minimum that corresponds in principle to the minimum wage (for a full-time job). In the case of a part-time job, the minimum is reduced proportionally regarding the duration of the job. There is also a ceiling for the contribution basis that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€}1,757.56/\text{month} = \text{€}8,787.8/\text{month}$ .

**EUROMOD Notes:** As it is impossible to obtain information on the production of the agricultural self-employed, we use the professional income as for the other self-employed.

**Social contribution for health care - benefits in kind** (*Cotisations sociales pour soins de santé- prestations en nature*). The contribution basis is composed of the professional incomes defined above. The contribution rate is 5.6%. For the contribution basis there is a minimum that corresponds in principle to the minimum wage (full-time job). In the case of a part-time job, the minimum is reduced proportionally regarding the duration of the job. There is also a ceiling for the contribution basis that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€}1,921.03/\text{month} = \text{€}8,787.8/\text{month}$ .

	Rate	Minimum contributory amount	Maximum contributory amount	Value of the minimum wage (MW)
2011	5.6%	MW	5 x MW	1,757.56€/month
2012	5.6%	MW	5 x MW	1,801.49€/month
2013	5.6%	MW	5 x MW	1,874.19€/month
2014	5.6%	MW	5 x MW	1,921.03€/month

**Social contribution for long-term care insurance** (*Cotisations sociales pour l'assurance dépendance*). The contribution basis is composed of the professional incomes. The contribution rate amounts to 1.40 %. No maximum is applied to the contribution basis.

	Rate
2011	1.4%
2012	1.4%
2013	1.4%
2014	1.4%

**Social contribution for pension insurance** (*Cotisations sociales pour pension*). The contribution basis is composed of the professional incomes. The contribution rate is 16%. For the contribution basis there is a minimum that corresponds in principle to the minimum wage (full-time job). In the case of a part-time job, the minimum is reduced proportionally regarding the duration of the job. There is also a ceiling for the contribution basis that corresponds to 5 times the minimum wage, which means for June 2011:  $5 \times \text{€}1,682.76/\text{month} = \text{€}8,413.8/\text{month}$ . Nevertheless, there is no ceiling for civil servants.

	Rate	Minimum contributory amount	Maximum contributory amount	Value of the minimum wage (MW)
2011	16%	MW	5 x MW	1,757.56€month
2012	16%	MW	5 x MW	1,801.49€month
2013	16%	MW	5 x MW	1,874.19€month
2014	16%	MW	5 x MW	1,921.03€month

**Self-employed social contributions for accident** (*Cotisations sociales de l'assurance accident*). Same configuration and implementation as for “Employer social contributions”, Section 2.5.2.

#### 2.5.4 Social contributions on social assistance (*tsceebeot\_s*)

Two types of social contributions are levied on the social assistance benefit (*revenu mimum garanti*): the social contribution for health-benefit in kind that is calculated in the module “Employee social contributions (section 2.4.1)” and the social contribution for long-term care (*tsceebeot\_s*).

The rules for calculating these two social contributions are exactly the same as those described above for employees. The contribution basis is the gross amount of the social assistance.

#### 2.5.5 Credited social contributions (*tsctt\_s*)

Credited social contributions are composed of social contributions for health care – benefits in kind (*tsctthl\_s*) and social contributions for pension (*tscttpi\_s*). The rules for these social contributions are exactly the same as those concerning employee social contributions. The contribution basis is the replacement income or the pension income.

#### 2.5.6 Credited social contributions for social assistance (*tscttsi\_s*)

Credited social contributions for social assistance are composed of social contributions for health care – benefits in kind. The rules for these social contributions are exactly the same as those concerning employee social contributions. The contribution basis is the gross amount of the social assistance.

### 2.6 Personal income tax

#### 2.6.1 Tax unit

**Personal income tax** (*Impôt sur le revenu des personnes physiques*) is taxed jointly at the family unit (*tu\_tin\_lu*). The family unit is defined by the marriage or the legal consensual union and children less than 18 years old on 1 January of the tax year without a salary.

Taxpayers are granted a tax class according to their family status. Married taxpayers (even in the case of a wedding or divorce during the calendar year), widowed persons for the 3 years following the year in which they became widowed, divorced or separated individuals for the 3 years following the year of divorce or separation and civil partners who live together for a full tax year and elect to file jointly, belong to tax class 2.

Widowed persons not included in tax class 2, individuals aged at least 65 on 1 January and single parents belong to tax class 1a.

All other individuals belong to tax class 1.

For tax class purposes, the definition of a child is different from that used in the tax unit. A child is less than 21 years old on 1 January of the tax year or 21 years old and more continuing to study.

	Without children	With children	More than 64 years old on 1 January
Single	1	1a	1a
Married/ Legal consensual union*	2	2	2
Separated**	1	1a	1a
Divorced**	1	1a	1a
Widow**	1a	1a	1a

\* If the persons in legal consensual union ask to be taxed jointly, the rules concerning married couples are applied

\*\* These taxpayers continue to benefit from splitting (tax class 2) during the 3 years after the separation, the divorce or being widowed.

### 2.6.2 Exemptions

We define exemptions following Verbist (2004): “income components (that) are part of pre-tax income, but do not have to be declared to the tax authorities, and thus are not included in the concept of taxable income (e.g. child benefits in most countries)”.

Exemptions concern child benefit, new school year benefit, education benefit, maternity benefit, birth benefit, parental leave benefit, heating allowance benefit, 30% of the wage of the agricultural worker, additional wages for night work, Sunday work and bank holiday work, payment for additional hours, and severance pay.

**EUROMOD Notes:** additional wages for night work, Sunday work and bank holiday work, and payment for additional hours could not be identified in EUROMOD. The exemption of 30% of the wage of agricultural worker is simulated like an allowance in EUROMOD.

### 2.6.3 Tax allowances

Here, we define tax allowances as any amount subtracted from pre-tax income (including social insurance contributions). Unlike Verbist (2004), there is no distinction between those that are fixed amounts (tax allowances) and those whose level is a function of pre-tax income (deductions).

There are many allowances in the Luxembourg income tax regime. According to the data available in the input data, it is impossible to simulate all of them. The table below presents the main allowances present in the personal income tax regime. Three types of allowances can be distinguished: acquisition costs, special expenses and allowances.

**Acquisition costs** (*frais d'obtention*) correspond to expenses in order to earn income. For wage earners, the acquisition costs correspond to a lump-sum of €540/year (this lump-sum can be replaced by the allowable expenses if they are higher – no information about allowable expenses in Euromod- lump-sum is used in Euromod) and travelling costs: a minimum of €396/year (€0/year since 2013) and a maximum of €2,970/year (€2,574/year since 2013) depending on the distance home-workplace (no information about the distance home-workplace in Euromod – the minimum is used in Euromod). For recipients of pensions, the acquisition costs correspond to a lump-sum of €300/year. When married couples jointly taxed receive each one a wage and/or a pension, the two members of the couple are entitled to these acquisition costs. For persons having income from a movable asset, acquisition costs correspond to a lump-sum of €25/year (doubled in case of joint taxation). The acquisition costs for rental income correspond to 35% of the gross annual rentals. The rental value of a dwelling occupied by an owner-occupier is regarded as taxable (the value of the rent is calculated by the tax administration. The value is unknown in Euromod but it is very low) and the interest repayments on mortgage for the acquisition of the dwelling are considered as acquisition costs. For 2011, these costs are fixed per annum per family member for the first five years of occupation at €1,500, for the next five years at €1,125 and for the next years at €750 (no information about the year of occupation in Euromod – we use the value that corresponds to 6-10 years of occupation).

**Special expenses** (*dépenses spéciales*) correspond to the compulsory social contributions (except social contributions for long-term care insurance) and other expenses. They are several other expenses but all taxpayers benefit at least from a lump-sum of €480/year without any justification (time two in case of joint taxation and both members of the couple have a salaried occupation). In case of higher expenses than the lump-sum, taxpayers can deduct the amount of the expenses instead the lump-sum (no information about expenses in Euromod – lump-sum is used). Next to the lump-sum, other expenses can be deducted. The most common are i) interest expenses (excluded the mortgage interests of the main residence that are considered as acquisition costs – see above) up to € 672/year (amount multiplied by the number of persons in the tax unit), ii) insurance payment up to €672/year (amount multiplied by the number of persons in the tax unit), iii) private pension contributions (3<sup>rd</sup> pillar) up to €1,500/year for a person less than 40 years old and up to €3,200/year for a person aged between 55 and 74 years old and iv) maintenance payments up to €24,000/year since 2011.

**Allowances** (*abattements*) are obtained to reduce the taxable income. The most common allowances are i) allowance for extraordinary burden (childcare costs, domesticity costs...); the allowance is maximum equal to €3,600/year and cannot exceed the real costs (no information about these costs in EUROMOD – not simulated) and ii) Extra-professional allowance equal to €4,500/year applicable to married couples jointly taxed if both of them are working (wage earners or self-employed).

<b>Allowances</b> (yearly amounts, in €)		<b>2011-2012</b>	<b>2013-2014</b>
<b>Acquisition costs</b> ( <i>Frais d'obtention</i> )			
Income from a salaried occupation		540	540
Travelling costs (depending on the distance home-workplace)	Min	396	0
	Max	2,970	2,574
Income resulting from a pension		300	300
Income from a movable asset		25	25
Rental income		35% of the rent	35% of the rent
	Max	2,700 per building	2,700 per building
Interest repayments on mortgage for the main residence	1-5 years after first occupation	1,500 per member of the HH	1,500 per member of the HH
	6-10 years after first occupation	1,125 per member of the HH	1,125 per member of the HH
	11 and more years after first occupation	750 per member of the HH	750 per member of the HH
<b>Special expenses</b> ( <i>Dépenses spéciales</i> )			
Compulsory social contributions (except social contributions for long-term care insurance)		No limit	No limit

For lack of higher expenses, lump-sum (times two in case of joint taxation and both members of the couple have a salaried occupation)		480	480
Interest expenses (amount multiplied by the number of persons in the tax unit)		672	672
Insurance payment (amount multiplied by the number of persons in the tax unit)		672	672
Private pension contributions	Max	From 1,500 to 3,200 depending on age	From 1,500 to 3,200 depending on age
Maintenance payment	Max	24,000	24,000
<b>Allowances (Abattements)</b>			
Allowance for extraordinary burden (childcare costs, domesticity costs...); the allowance cannot exceed the real costs		3,600	3,600
Extra-professional allowance		4,500	4,500
Transfer or termination allowance		10,000	10,000

Note: allowances in grey could not be implemented in the simulation

#### 2.6.4 Tax base

The tax base is called “income to tax according to the schedule” (*revenu à imposer suivant barème*), which is equal to the sum of the eight categories of taxable income: Commercial/business profits; Profits from agriculture and forestry; Profits derived from self-employed professions (*profession libérale*); Net income from employment; Net income from pensions and/or annuities; Net income from investments (movable capital); Net income from rental of property and Other net income (including capital gains). By net income we mean the difference between the receipts and the costs of obtaining these receipts (*dépenses d’exploitation et frais d’obtention*) (for example, travelling costs). Social contributions except for social contributions for long-term care and several allowances (*dépenses spéciales et abattements*) are finally deducted from the net income to obtain the adjusted tax base.

#### 2.6.5 Tax schedule

In 2011, an additional tax bracket has been added for higher incomes, and still another one in 2013.

For taxpayers in tax class 1, tax is determined by applying the tax schedule presented in the table below to the adjusted taxable income.

For taxpayers in tax class 1a, tax is determined by applying the tax schedule presented in the table below to the adjusted taxable income (ATI) less half of its complement to €45,060 on condition that the maximal increase rate does not exceed 39% in 2011 and 2012 (40% in 2013 and 2014). In practice it means that the “transformed” tax base for the calculation of the tax is equal to  $ATI - ((€45,060 - ATI)/2)$  in 2011. Since the taxation system is progressive, the tax base is decomposed in the appropriate band, such that income up to  $K_0$  is not taxed, income between  $K_1$  and  $K_0$  is

taxed at  $t_1$  rate, etc. and income above  $K_n$  is taxed at the tax rate  $t_n$ . For each taxpayer, at the margin the tax will be calculated as  $(ATI-(€45,060 -ATI)/2)-K)*t_k$ . The marginal tax rate will be hence equal to the derivative of this function with respect to ATI, that is  $t_k*3/2$ . In 2011, the limit to the marginal tax rate is 39%, this means that the maximum applicable rate is equal to 26% ( $26*3/2=39$ ). “Transformed” tax base above €28,437, corresponding to adjusted taxable income above about €34,000, will hence be taxed with the 26% rate.

For taxpayers in tax class 2, tax is determined by applying the tax schedule presented in the table below to the adjusted taxable income divided by 2 and then the tax obtained is multiplied by 2.

Finally, a surcharge is added as a contribution to the unemployment fund. In 2011 and 2012, the surcharge for the unemployment fund 4% if yearly adjusted tax base (*revenu ajusté*) is lower than €150,000 for tax classes 1 and 1a or €300,000 if the tax class is 2. In other cases, the surcharge is 6%. The same system prevails in 2013 and 2014 but with rates set to 7% and 9% respectively.

Moreover, in 2011 is introduced a “crisis contribution” (removed since 2012) which is 0.8% of gross income (with a minimum of €25). A tax allowance is previously applied (minimum wage in case of wage earners, replacement income or pensions, 75% of minimum wage if a self-employed ; in proportion of a full-time if employment income).

Years	2011-2012			2013-2014		
	Lower Limit (€year)	Upper Limit (€year)	Rate	Lower Limit (€year)	Upper Limit (€year)	Rate
1	0	11265	0 %	0	11265	0 %
2	11265	13173	8 %	11265	13173	8 %
3	13173	15081	10 %	13173	15081	10 %
4	15081	16989	12 %	15081	16989	12 %
5	16989	18897	14 %	16989	18897	14 %
6	18897	20805	16 %	18897	20805	16 %
7	20805	22713	18 %	20805	22713	18 %
8	22713	24621	20 %	22713	24621	20 %
9	24621	26529	22 %	24621	26529	22 %
10	26529	28437	24 %	26529	28437	24 %
11	28437	30345	26 %	28437	30345	26 %
12	30345	32253	28 %	30345	32253	28 %
13	32253	34161	30 %	32253	34161	30 %
14	34161	36069	32 %	34161	36069	32 %
15	36069	37977	34 %	36069	37977	34 %
16	37977	39885	36 %	37977	39885	36 %
17	39885	41793	38 %	39885	41793	38 %
18	41793		39 %	41793	100000	39 %
19				100000		40 %

### 2.6.6 Tax credits

Since 2009, three refundable tax credits were introduced by the Government (to replace former tax allowances) : the tax credit for employees (*credit d’impôt pour salariés*), the tax credit for the retired (*credit d’impôt pour pensionnés*) and the tax credit for lone parents (*credit d’impôt monoparental*).

Three different policies have been created to simulate these three tax credits.

Tax credit for employees (*tintcee\_lu*): the unit of analysis is the individual (*tu\_individual\_lu*). Amount: € 25 per month.

Tax credit for retired (*tintcpe\_lu*): the unit of analysis is the individual (*tu\_individual\_lu*). Amount: €25 per month.

Tax credit for lone parent (*tintclp\_lu*): the unit of analysis is the tax household (*tu\_tin\_lu*). Amount: €62.5 per month.

### 2.7 Minimum wage

Unless exceptional and specific agreements possible in some circumstances, wages are submitted to minimum rates in Luxembourg: € 1,757.56/month for non-qualified wage-earners in 2011 for a full time job (40 hours/week). (€10.1593/hour with a basis of 173 hours/month), € 1,801.49/month in 2012 and € 1,874.19/month in 2013 and € 1,921.03/month in 2014.

Those basic amounts are increased by 20% for qualified workers and also modulated based on the age of the wage-earner: 80% of the basic amount if aged 17 or 18, 75% of the basic amount if between 15- and 17-year-old.

The basic amount is defined as the “Minimum Social Wage” (*salair social minimum*), hereafter “Minimum Wage” or “MW” and is also an important parameter for the tax-benefit system as a whole : several amounts are defined based on this MW : upper limit of the monthly old-age pension in the general scheme (5 times the MW), ceilings for social contributions, etc.

**EUROMOD Notes:** Only the basic amount is simulated in EUROMOD.

## 3. DATA

### 3.1 General description

#### 3.1.1 The underlying data base

The Luxembourg database consists of the Luxembourgish part of the 2012 wave of the European Union Statistics on Income and Living Conditions (EU-SILC). This is a long-term panel survey started in 2003, representative of the Luxembourgish population living in private households. As it is a long-term panel, note that for the year 2012 the sample is composed of 9 longitudinal sub-samples (one started in 2003 composed of 9,580 persons, one started in 2004 composed of 1,760 persons, one started in 2005 composed of 1,432 persons, one started in 2006 composed of 1,678 persons, one started in 2007 composed of 1,357 persons, one started in 2008 composed of 1,233 persons, one started in 2009 composed of 3,055 persons, one started in 2010 composed of 3,715 persons, one started in 2011 composed of 3,374 persons and one newly cross-sectional sub-sample (individuals and households participated for the first time in the survey composed of 5,000 “fiscal” households). The survey takes place mostly in the first half of the year following the income reference year. The unit of assessment is the sociological household, defined as the persons living at the same address.

The response rate for the total sample is defined as (number of addresses successfully contacted / number of valid addresses contacted) x (number of household interviews completed and accepted for the database / number of eligible households at contacted addresses) = 59.38%. The response rate is “quite high” due to the fact that 2012 corresponds with the 10th wave of a long-term panel. For information, the response rate of the 1st wave was only 37.62%.

The Data Base on which the EUROMOD database is based is provided by LISER and STATEC. Contrary to the User Data Base provided by Eurostat the Data Base provided by LISER and STATEC is more detailed, especially concerning the income components.

Table 14. EUROMOD database description

EUROMOD database	LU_2012_a2
Original name	PSELL3/EU-SILC wave 10
Provider	LISER and STATEC
Year of collection	2012
Period of collection	January 2012 to July 2012
Income reference period	2011
Sampling	Stratified sampling
Unit of assessment	Fiscal household
Coverage	Private households
Sample size	6,031 households and 12, 579 persons aged 16 years and more
Response rate	59.38%

### 3.1.2 Sample quality and weights

The *response rate* is equal to 59.38%, meaning that the non-response rate is equal to 40.62% PSELL3/EU-SILC is a long-term panel started in 2003. To take into account the high turn-over of the population in Luxembourg and in order to be cross-sectionally representative, a sub-sample of “new immigrants” is added each year. The total non-response rate is equal to 40.62% but it is equal to 78.84% for households having participated in the survey from 2009-2012 and 73.47% for households belonging to the new sub-sample.

For the first year of PSELL3/EU-SILC (year 2003), the non-response rate was 62.42%.

The high non-response rate could be explained by the fact that the participation in this survey is voluntary and by the fact that the probability of being contacted for participating in a survey is quite high in Luxembourg due to the small size of the population.

The *weights* were developed in three steps: a) correction for unit non-response, b) adjustment to external sources (calibration) and c) final cross-sectional weights.

The global non-response correction rests on a model of the behaviour of the contacted or responding households. The external sources used for the final calibration come from two different sources: the estimation of the population in 2012 made by STATEC and the 2001 census data. The final cross-sectional weights are elaborated using the Generalized Share Weight Method. Individuals belonging to the same households have the same weight.

Before imputation, *item non-response* especially concerns income variables and more particularly some income components like interest income or self-employed income. Because of the fact that all income components having item non-response have been imputed, the PSELL3/EU-SILC dataset does not have item non-response for the income variables. Item non-response for other variables is very low. Concerning *under-reporting*, the only way to assess if households have under- (versus over-) reported some income components is to compare the survey data with administrative data (see table 15).

Table 15. Descriptive statistics of the grossing-up weight

Number	15,462
Mean	32.477
Median	23.449
Maximum	313.304
Minimum	0.682
Max/Min	459.390
Decile 1	2.701
Decile 9	72.483
Dec 9 / Dec1	26.836

Note: the numbers in the table correspond to the adjusted dataset (see 3.3 Data adjustment).

### 3.3 Data adjustment

Adjustments to variables are kept to a minimum. Some minor data cleaning is done to make sure that the households and relationships of individuals within households are coherent (for example, that young children are not living alone or family relations are coherent).

In order to guarantee consistency between demographic variables and income variables which refer to the previous year (and on which the EUROMOD simulation is based), all children born between the end of the income reference period and the date of interview have been dropped from the sample.

Households with at least one international civil servant have been dropped from the PSELL3/EU-SILC dataset. International civil servants have a specific tax-benefit system different from the national one. The PSELL3/EU-SILC dataset contains 16,157 observations. After having dropped the persons living in a household with at least one international civil servant (645 cases) and all the children born between the end of the income reference period and the date of interview (50 cases), the dataset contains 15,462 observations.

### 3.4 Imputations and assumptions

#### 3.4.1 Time period

- Reference period of socio-demographic, labour, economic characteristics corresponds to the time of data collection (January-July 2012). However, some labour information (monthly main activity) corresponds to the time of income reference period (2011).
- Information on incomes refers to the calendar year 2011.
- For the following income components, information about how many number of months they were paid is present: employment income (*yemmy*), self-employment income (*ysemy*), unemployment income (*bunmy*), fringe benefit (*kfbmy*), invalidity income (*pdimy*), old-age pension (*poamy*) and survivor pension (*psumy*).

#### 3.4.2 Gross incomes

The PSELL3/EU-SILC survey contains information on both gross and net monetary incomes. Both incomes are collected during the fieldwork.

#### 3.4.3 Disaggregation of harmonized variables

Since Luxembourg uses the national version of EU-SILC with detailed information on income components, no specific imputation has been done to disaggregate the income component present in the EU-SILC UDB.

In order to simulate the unemployment benefit, the variable *yempv* (previous year income) has been derived reversing the rule for the calculation of unemployment benefit.

### 3.5 Updating

To account for any time inconsistencies between the input dataset and the policy year, updating factors are used. Each monetary variable (i.e. each income component) is updated so as to account for changes in the non-simulated variables that have taken place between the year of the data and the year of the simulated tax-benefit system. Updating factors are generally based on changes in the average value of an income component between the year of the data and the policy year. For detailed information about the construction of each updating factor as well as the sources that have been used, see Annex 1 (and DRD).

Updating factors are provided for non simulated monetary components present in the input dataset only. No other updating adjustments are employed. Thus the distribution of characteristics (such as employment status and demographic variables), and the distribution of each income source that is not simulated, remain as they were in 2009.

## 4. VALIDATION

### 4.1 Aggregate Validation

EUROMOD results are validated against external benchmarks. Detailed comparisons of the number of people receiving a given income component and total yearly amounts are shown in Annex 2. Both market incomes and non-simulated taxes and benefits in the input dataset as well as simulated taxes and benefits are validated against external official data. The main discrepancies between EUROMOD results and external benchmarks are discussed in the following subsections. Factors that may explain the observed differences are also discussed.

#### 4.1.1 Components of disposable income

Table 16. Components of disposable income

	EUROMOD 2011	EU-SILC [2012 / <i>income 2011</i> ]
	ils_dispy	HY020
Employee cash or near cash income	+	+
Employer's social insurance contribution	0	0
<i>Company car</i>	0	+
Contributions to individual private pension plans	0	0
Cash benefits or losses from self-employment	+	+
Pension from individual private plans	+	0
Unemployment benefits	+	+
Old-age benefits	+	+
Survivor' benefits	+	+
Sickness benefits	+	+
Disability benefits	+	+
Education-related allowances	+	+
Income from rental of a property or land	+	+
Family/children related allowances	+	+
Social exclusion not elsewhere classified	+	+
Housing allowances	+	+
Regular inter-household cash transfer received	+	+
Interests, dividends, etc.	+	+
Income received by people aged under 16	+	+
Regular taxes on wealth	-	-
Regular inter-household cash transfer paid	-	-
Tax on income and social contributions	-	-
<i>Repayments/receipts for tax adjustment</i>	0	+

Source: EUROMOD and EU-SILC/PSELL3 (2012)

#### 4.1.2 Validation of incomes inputted into the simulation

Tables 4.2 to 4.6 present a comparison between EUROMOD *non-simulated* income components recipients/payers and expenditure/revenue and external sources for the years 2011, 2012, 2013 (no sufficient external data available for 2014). Ratio to external source corresponds to EUROMOD numbers divided by the numbers from external sources.

EUROMOD numbers of recipients/payers are always the same in 2012-2014 as in 2011 (no demographic update). But the expenditure/revenue figures are updated using the income updating factors.

Often, the results are good. The discrepancies observed between the EUROMOD and external sources numbers can be partially explained by five main factors: i) persons living in collective households are present in external sources and

not in EUROMOD, ii) the definition of some income components may differ slightly from one source to another, iii) for some components, we had to hypothesise concerning the share of resident recipients and the % expenditure/revenue concerning specifically residents, iv) income variables in external administrative sources are sometimes indirectly derived from social contributions rather than directly registered/observed as in SLC data and v) a few income components are not well understood during the survey.

For example, in Luxembourg the concept of early retirement (*préretraite*) coexists with the concept of anticipated retirement (*retraite anticipée*). It seems that some persons confused these two concepts which may explain why the number of recipients of the early retirement benefit is 3 times higher in EUROMOD than in external sources (*Table 4.5*). A discrepancy can also be observed for recipients of “permanent accident benefit” and “care allowance”; however, the outcome for amounts (which could not be disentangled in external sources) is much better as soon as those benefits are aggregated, which might be seen as a complementary illustration of factor v) (*Table 4.6*). But factors iii) and iv) are certainly not to be underestimated either. In particular, these may lead to the discrepancies observed between EUROMOD and external sources for employment and self-employment recipients mainly (*Table 4.3*), hence on average employment income as well. Differences in survivor pensions between EUROMOD and external sources are striking, maybe due to factor i), part of survivors (mainly women) living in collective households ; however, such an hypothesis is certainly to be explored further before concluding. Finally, maternity allowances as derived from external sources were computed based on a “100% share of benefits paid to residents” hypothesis, due to lack of prior knowledge with that respect (factor iii) ; maybe a too radical choice, also to be checked further.

### 4.1.3 Validation of outputted (simulated) incomes

*Tables 4.7* and *4.8* present a comparison between EUROMOD *simulated* components and external sources for the years 2011, 2012, 2013 (no sufficient external data available for 2014). Ratio to external source corresponds to EUROMOD numbers divided by the numbers from external sources.

Except for social assistance and heating allowance, two components subject to non take-up, and a few other amounts (e.g. amounts for self-employed social contribution for accident) the results are satisfactory.

Out of non take-up phenomenon, the discrepancies observed between the EUROMOD and external sources numbers can be partially explained by the factors i) to v) emphasized in *Section 4.1.2*. For example, in Luxembourg external sources do not always provide taxes and benefits components paid/received by residents and by non-residents. For some components, we had to hypothesise concerning recipients and the % expenditure/revenue concerning only residents. For *tin\_s* and the sum of the contributions for healthcare, we hypothesise that residents pay 65% of the income tax (the ratio between all kinds of resident "workers" and pensioners and the same population whatever the residence status). For other components, ratios are derived based on the target resident population/amount compared to the whole target population/amount (for example, 53% for family benefits in 2011). If unknown, a share is derived from similar components (see *bch00\_s* below).

For *bch00\_s* (boni for children), we do not have the number of recipients only for residents from external source. We hypothesise, that the number is the same than for *bfauc\_s*. Since 2009 and the introduction of a uniform status (*statut unique*) for blue-collar and white-collar workers, there is a discrepancy between external sources and EUROMOD outcome regarding the social contributions for health payment from “employers” (including self-employed and “credited”) due lack of external information regarding the "Mutualité des employeurs" which has been made compulsory and is benefitting from a greater part of contributions than earlier.

Social assistance and the heating allowance benefit show a remarkable gap between values as simulated through EUROMOD and derived from external sources. Ratios between 1.50 and 2.23 (regarding recipients, all years, *Table 4.7*) and between 1.56 and 1.96 (for the amounts, *Table 4.8*) certainly largely result from a non take-up attitude, on top of the various discrepancy factors mentioned earlier. Considering such an attitude as the dominant factor would lead to an indication of take-up ratios which roughly correspond to what literature is emphasizing for Luxembourg and countries around, with higher values for recipients (about 40% in 2009) compared to amounts (around 60% in 2009) when social assistance is considered.

## 4.2 Income distribution

All income distribution results presented in *Table 4.9* are computed for individuals according to their household disposable income (HDI) equivalised by the “modified OECD” equivalence scale. HDI are calculated as the sum of all income sources of all household members net of income tax and social insurance contributions. The weights in the OECD equivalence are: first adult=1; additional people aged 14+ = 0.5; additional people aged under 14 = 0.3.

Differences between EUROMOD computations and EU-SILC (“external”) derivations can be partially explained by a non-fully consistency between the definitions of disposable income on both sides (“ils\_dispy” for EUROMOD, “hy020” for EU-SILC, cf. *Table 16*). Moreover, the coverage of EUROMOD input data differs from that of SILC 2012 because international civil servants (high income) have been excluded from the EUROMOD input data. But a third factor is playing an important role, as explained below.

### 4.2.1 Income inequality

*Table 4.9* compares income inequality indicators issued from EUROMOD with the income inequality produced from EU-SILC 2011 and 2012.

Inequalities seem lower when measured through EUROMOD computations. This can be partially explained by the explicit hypothesis of full take-up for social benefits in the model. Another source might be the discrepancy between the target populations, international civil servants being dropped in the EUROMOD simulations (not in SILC data).

### 4.2.2 Poverty rates

*Table 4.10* compares poverty rates issued from EUROMOD with the official poverty rates produced from EU-SILC 2011 and 2012. The EUROMOD rates are clearly below the SILC rates. This difference can be explained the same way as mentioned in the previous paragraphs, in particular taking into account full take-up for social benefits as they are simulated through EUROMOD presently.

## 4.3 Summary of “health warnings”

This final section summarises the main findings in terms of particular aspects of the LU part of EUROMOD or its database that should be borne in mind when planning appropriate uses of the model and in interpreting results.

- *The input database contains only residents affiliated to the national social security system. That means that international civil servants who have their own social security system and their own tax system have been excluded from the sample. In Luxembourg, a small country with several international institutions, they represent around 5% of the resident active population. Care should be taken in comparing EUROMOD outputs with EU-SILC outputs. One must know that international civil servants earn mid to high wages.*
- *Around half of the labour force from the private sector is composed by cross-border workers in Luxembourg. They are not included in the database because the sample covers only residents. Care should be taken in comparing some EUROMOD outputs with external statistics. External statistics do not always make the difference between residents and cross-border workers.*
- *External statistics about income tax are extremely rare in Luxembourg. It is impossible to know the numbers of persons or fiscal households who pay income tax and the aggregate amount of income tax does not make the difference between residents and cross-border workers. So, the validation for income tax is difficult to achieve.*

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**ANNEX 1: UPRATING FACTORS**

Table A1.1-Uprating factors values and sources

Index	Constant name	2007	2008	2009	2010	2011	2012	2013	2014	Source
National Consumer Price index (IPCN)	\$f_ipcn	105.04	108.61	109.01	111.49	115.29	118.37	120.42	121.18	STATEC / National Consumer Price index (IPCN) - Index base 100 in 2005 Yearly average <a href="http://www.statistiques.public.lu/stat/ReportFolders/ReportFolder.aspx?IF_Language=fra&amp;MainTheme=5&amp;FldrName=5&amp;RFPath=109">http://www.statistiques.public.lu/stat/ReportFolders/ReportFolder.aspx?IF_Language=fra&amp;MainTheme=5&amp;FldrName=5&amp;RFPath=109</a>
Annual average of the personal minimum pension	\$f_upr2	920.47	949.20	981.31	997.62	1016.25	1041.64	1067.68	1099.19	IGSS / Social parameters - "nombre indice" & "facteur d'ajustement", Yearly average ( <a href="http://www.mss.public.lu/publications/parametres_sociaux/index.html">http://www.mss.public.lu/publications/parametres_sociaux/index.html</a> ) & Own calculations
Annual average care allowance	\$f_upr3	596.54	608.96	624.19	634.56	646.40	662.56	679.12	691.76	IGSS / Social parameters - Care allowance, Yearly average ( <a href="http://www.mss.public.lu/publications/parametres_sociaux/index.html">http://www.mss.public.lu/publications/parametres_sociaux/index.html</a> ) & Own calculations
Annual average long term care allowance	\$f_upr4	52.44	53.26	56.92	59.27	61.58	63.63	65.22	66.43	IGSS / Social parameters - Long-term care allowance, Yearly average ( <a href="http://www.mss.public.lu/publications/parametres_sociaux/index.html">http://www.mss.public.lu/publications/parametres_sociaux/index.html</a> ) & Own calculations
No Uprating	\$f_NoUpr	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Annual average minimum wage	\$f_upr5	1570.28	1602.99	1675.92	1703.79	1768.54	1812.75	1885.90	1921.03	IGSS / Social parameters, Minimum social wage, Yearly average ( <a href="http://www.mss.public.lu/publications/parametres_sociaux/index.html">http://www.mss.public.lu/publications/parametres_sociaux/index.html</a> ) & Own calculations
Annual average of the Cost of living allowance	\$f_upr6	600.00	660.00	1320.00	1320.00	1320.00	1320.00	1320.00	1320.00	IGSS / Social parameters, Minimum social wage, Yearly average ( <a href="http://www.mss.public.lu/publications/parametres_sociaux/index.html">http://www.mss.public.lu/publications/parametres_sociaux/index.html</a> ) & Own calculations
Annual average minimum wage lagged by 1 year	\$f_upr7	1506.55	1570.28	1602.99	1675.92	1703.79	1768.54	1812.75	1885.90	IGSS / Social parameters, Minimum social wage, Yearly average ( <a href="http://www.mss.public.lu/publications/parametres_sociaux/index.html">http://www.mss.public.lu/publications/parametres_sociaux/index.html</a> ) & Own calculations
HICP	\$HICP	106.04	111.70	110.61	113.18	117.48	120.51	122.93	124.38	HICP, source Eurostat

Table A1.2-Uprating indexes usage

National Consumer Price index (IPCN)	\$f_ipcn	afc, bched02, bched03, bed, bhl, bho, tad, tis, tpr, xhc, xhcmomi, xhcot, xhcrt, xmp, xpp, yds, yiy, yot, ypp, ypr, ypt, yse, ysv, kfb, kivho, kfbcc, ydses_o, bched05
Annual average of the personal minimum pension	\$f_upr2	bacpm, bdisv, pdi00, poacc, poacm, poamr, poaps, poapu, poawr, poaxp, psups, psupu
Annual average care allowance	\$f_upr3	bca01
Annual average long term care allowance	\$f_upr4	bca02
No Uprating	\$f_noupr	bched01, bched04, bfapl, bfauc, bmaba, bmals
Annual average minimum wage	\$f_upr5	bmawk, bsacm, bsaot, bunss, byr, yem, yivwg
Annual average of the Cost of living allowance	\$f_upr6	bsaht
Annual average minimum wage lagged by 1 year	\$f_upr7	yempv
HICP	\$hicp	

**ANNEX 2: MACROVALIDATION TABLES**

Table 4.2-Number of employed and unemployed

	EUROMOD		External				Ratio			
	2011	2011	2012	2013	2014	2011	2012	2013	2014	
Number of employed	221.8524	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Number of unemployed	8.658608	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

Table 4.3-Market income in EUROMOD -Number of recipients (in thousands)

	EUROMOD		External				Ratio			
	2011	2011	2012	2013	2014	2011	2012	2013	2014	
Employment income	227.8519	196.361	202.24	205.697	N/A	1.16	1.13	1.11	N/A	
Self-employment income	16.24638	19.104	19.33	19.622	N/A	0.85	0.84	0.83	N/A	
Rent income	36.90451	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Investment income	207.8697	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

Table 4.4-Market income in EUROMOD -Annual amounts (in mil.)

	EUROMOD				External				2011	2012	2013	2014	
	2011	2012	2013	2014	2011	2012	2013	2014					
Average													
employment income	45316.33	46449.16	48323.52	49223.67	52946.76	56335.65	58347.43	N/A	0.86	0.82	0.83	N/A	
Employment income	10325.41	10583.53	11010.61	11215.71	10396.68	11393.32	12001.89	N/A	0.99	0.93	0.92	N/A	
Self-employment income	779.4415	800.2646	814.1239	819.2621	737.7554	765.2134	800.7119	N/A	1.06	1.05	1.02	N/A	
Rent income	427.9794	439.4129	447.0228	449.8442	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Investment income	196.164	201.4049	204.8914	206.1869	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

Table 4.5-Tax benefit instruments included but not simulated in EUROMOD -Number of recipients/ payers (in thousands)

	EUROMOD	External	Ratio						
	2011	2011	2012	2013	2014	2011	2012	2013	2014
<b>Benefits</b>									
Early retirement benefit	3.65024	1.2713337	1.1974579	1.183536	N/A	2.87	3.05	3.08	N/A
Disability benefit	10.57455	10.208	9.989	9.801	N/A	1.04	1.06	1.08	N/A
Old-age pension for having educated children	14.14858	21.964	21.524	21.008	N/A	0.64	0.66	0.67	N/A
Additional pension, 2nd pillar	1.83848	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Supplementary pension for minors	0.03524	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Old-age pension from private sector	51.87239	49.962	51.821	53.936	N/A	1.04	1.00	0.96	N/A
Old-age pension from public sector	14.56071	10.491	10.828	11.074	N/A	1.39	1.34	1.31	N/A
War pension	0.30227	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
End-of-year allowance for pensioners	46.05752	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Survivor pension from private sector	17.65356	19.381	19.423	19.43	N/A	0.91	0.91	0.91	N/A
Survivor pension from public sector	3.75972	4.516	4.419	4.419	N/A	0.83	0.85	0.85	N/A
Permanent accident benefit	2.15903	8.1008473	8.1028974	8.0001723	N/A	0.27	0.27	0.27	N/A
Care allowance	0.40545	0.008	0.005	N/A	N/A	50.68	81.09	N/A	N/A
Long-term care benefit	2.46537	6.388	6.655	6.786	N/A	0.39	0.37	0.36	N/A
Heavily handicapped person benefit	0.95228	0.785	0.734	0.708	N/A	1.21	1.30	1.35	N/A
Subsidy for primary and post-primary school	4.13295	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Communal subsidy for school	1.42728	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Education allowance	6.71241	5.436	5.211	5.249	N/A	1.23	1.29	1.28	N/A
Allowance for children in placement	0.1655	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Parental leave benefit	3.74124	2.1867417	2.24273	2.340198	N/A	1.71	1.67	1.60	N/A
Antenatal, birth, postnatal benefit	4.87787	6.252	6.586	6.836	N/A	0.78	0.74	0.71	N/A
Maternity allowance	0.5107	1.208	1.2365	1.236	N/A	0.42	0.41	0.41	N/A
Maternity payment	3.55058	3.2192622	3.3881459	3.4393498	N/A	1.10	1.05	1.03	N/A
Other benefit from FNS	3.96499	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Health payment	2.2344	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Housing benefit	43.67435	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Sources: EUROMOD computations, STATEC, IGSS, Ministry of Labor and Employment, SNAS, ADEM and own computations from IGSS Data warehouse

Table 4.6-Tax benefit instruments included but not simulated in EUROMOD -Annual amounts (in mil.)

	EUROMOD				External				Ratio			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
<b>Benefits</b>												
Early retirement benefit	118.90	121.87	126.79	129.15	57.953833	59.737129	61.960532	N/A	2.05	2.04	2.05	N/A
Disability benefit	224.91	230.53	236.29	243.26	236.453	237.66702	237.98262	N/A	0.95	0.97	0.99	N/A
Old-age pension for having educated children	37.64	38.58	39.54	40.71	44.690587	43.808735	42.75958	N/A	0.84	0.88	0.92	N/A
Additional pension, 2nd pillar	22.05	22.60	23.16	23.85	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Supplementary pension for minors	0.01	0.01	0.01	0.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Old-age pension from private sector	1633.26	1674.06	1715.91	1766.56	1577.9864	1693.5384	1807.7098	N/A	1.04	0.99	0.95	N/A
Old-age pension from public sector	888.67	910.87	933.64	961.20	637.77125	719.32303	739.46476	N/A	1.39	1.27	1.26	N/A
War pension	1.95	2.00	2.05	2.11	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
End-of-year allowance for pensioners	31.24	32.02	32.82	33.79	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Survivor pension from private sector	414.28	424.63	435.24	448.09	461.72437	477.12973	487.9595	N/A	0.90	0.89	0.89	N/A
Survivor pension from public sector	131.94	135.24	138.62	142.71	161.16904	163.16209	163.16209	N/A	0.82	0.83	0.85	N/A
Permanent accident benefit	17.15	17.58	18.02	18.55	42.703873	44.44821	45.378617	N/A	0.40	0.40	0.40	N/A
Care allowance	3.67	3.76	3.86	3.93								
Long-term care benefit	24.20	25.01	25.63	26.11	36.156205	39.407426	42.698675	N/A	1.03	0.97	0.92	N/A
Heavily handicapped person benefit	9.29	9.52	9.76	10.05								
Subsidy for primary and post-primary school	0.68	0.70	0.71	0.72	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Communal subsidy for school	0.56	0.57	0.58	0.58	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Education allowance	19.67	19.67	19.67	19.67	34.987891	33.880472	33.300985	N/A	0.56	0.58	0.59	N/A
Allowance for children in placement	5.07	5.21	5.30	5.33	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Parental leave benefit	27.46	27.46	27.46	27.46	36.047087	35.356529	37.180275	N/A	0.76	0.78	0.74	N/A
Antenatal, birth, postnatal benefit	5.08	5.08	5.08	5.08	10.741095	11.095649	11.266913	N/A	0.47	0.46	0.45	N/A
Maternity allowance	1.61	1.61	1.61	1.61	3.6775921	3.7776838	3.7378637	N/A	0.44	0.43	0.43	N/A
Maternity payment	40.12	41.12	42.78	43.58	59.093838	63.890751	67.824158	N/A	0.68	0.64	0.63	N/A
Other benefit from FNS	10.93	11.20	11.66	11.87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Health payment	31.13	31.97	32.52	32.72	42.3	53.605957	55.852237	N/A	0.74	0.60	0.58	N/A
Housing benefit	43.41	44.57	45.35	45.63	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Sources: EUROMOD computations, STATEC, IGSS, Ministry of Labor and Employment, SNAS, ADEM and own computations from IGSS Data warehouse

Table 4.7-Tax benefit instruments simulated in EUROMOD -Number of recipients/ payers (in thousands)

	EUROMOD				SILC	Ratio	External				Ratio			
	2011	2012	2013	2014			2011	2011	2011	2012	2013	2014	2011	2012
<b>Benefits</b>														
Unemployment benefit	13.14	13.14	13.14	13.14	13.14	1.00	16.16	16.96	19.29	N/A	0.81	0.77	0.68	N/A
Social assistance	20.64	20.43	19.81	19.91	9.26	2.23	9.45	9.16	9.24	N/A	2.18	2.23	2.14	N/A
Heating Allowance	31.59	32.87	32.96	31.67	16.70	1.89	18.46	17.09	22.01	N/A	1.71	1.92	1.50	N/A
Child benefit	66.47	66.47	66.47	66.47	113.08	0.59	65.04	65.93	66.81	N/A	1.02	1.01	0.99	N/A
New year school allowance	48.46	48.46	48.46	48.46	40.24	1.20	42.68	43.85	43.64	N/A	1.14	1.11	1.11	N/A
Boni for children, since 2008	66.62	66.62	66.62	66.62	0.00	N/A	65.04	65.93	65.93	N/A	1.02	1.01	1.01	N/A
<b>Taxes and Social Insurance contributions</b>														
Income tax	235.36	231.64	235.06	237.22	0.00	N/A	196.36	202.24	205.70	N/A	1.20	1.15	1.14	N/A
Employee social contributions for healthcare	304.75	304.68	304.68	304.73	0.00	N/A	292.55	301.02	309.45	N/A	1.04	1.01	0.98	N/A
Employer social contributions for healthcare	190.62	190.62	190.62	190.62	0.00	N/A								
Credited social contributions for healthcare	121.45	121.45	121.45	121.45	0.00	N/A	292.55	301.0158647	309.4518182	N/A	1.07	1.04	1.01	N/A
Self-employed social contributions for healthcare	16.25	16.25	16.25	16.25	0.00	N/A	16.67	16.80	16.94	N/A	0.97	0.97	0.96	N/A
Employee social contributions for health payment	176.75	176.75	176.75	176.75	0.00	N/A	158.29	163.05	167.81	N/A	1.12	1.08	1.05	N/A
Employer social contributions for health payment	176.75	176.75	176.75	176.75	0.00	N/A	158.29	163.05	167.81	N/A	1.12	1.08	1.05	N/A
Self-employed social contributions for health payment	16.25	16.25	16.25	16.25	0.00	N/A	16.67	16.80	16.94	N/A	0.97	0.97	0.96	N/A
Credited social contributions for health payment	20.64	20.40	19.81	19.91	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Civil servant social contributions for pension	23.71	23.71	23.71	23.71	0.00	N/A	26.40	26.92	27.36	N/A	0.90	0.88	0.87	N/A
Employee from the private sector social contributions for pension	212.45	212.45	212.45	212.45	0.00	N/A	198.05	204.11	210.17	N/A	1.15	1.12	1.09	N/A
Self-employed social contributions for pension	16.25	16.25	16.25	16.25	0.00	N/A								
Employer social contributions for pension	227.85	227.85	227.85	227.85	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Credited social contributions for pension	21.91	21.91	21.91	21.91	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Employee social contribution for long-term care	310.99	310.99	310.94	310.94	0.00	N/A								
Social assistance recipient social contribution for long-term care	14.59	14.59	14.28	14.21	0.00	N/A	292.55	301.02	309.45	N/A	1.11	1.08	1.05	N/A
Self-employed social contribution for long-term care	16.25	16.25	16.25	16.25	0.00	N/A	16.67	16.80	16.94	N/A	0.97	0.97	0.96	N/A
Employer social contribution for accident	227.85	227.85	227.85	227.85	0.00	N/A								
Self-employed social contribution for accident	16.25	16.25	16.25	16.25	0.00	N/A	196.59	200.55	204.14	N/A	1.24	1.22	1.20	N/A

Sources: EUROMOD computations, STATEC, IGSS, Ministry of Labor and Employment, SNAS, ADEM and own computations from IGSS Data warehouse

Table 4.8-Tax benefit instruments simulated in EUROMOD -Annual amounts (Mil.)

	EUROMOD				SILC				Ratio				External			Ratio		
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2011	2012	2013
<b>Benefits</b>																		
Unemployment benefit	139.02	144.26	147.91	153.83	139.57	143.06	148.83	151.60	1.00	1.01	0.99	1.01	165.02	193.53	n/a	0.84	0.75	N/A
Social assistance	201.60	205.61	207.03	211.23	101.88	104.43	108.65	110.67	1.98	1.97	1.91	1.91	114.40	119.52	117.48	1.76	1.72	1.76
Heating Allowance	56.99	59.47	59.70	57.06	20.56	20.56	20.56	20.56	2.77	2.89	2.90	2.78	29.79	30.27	30.27	1.91	1.96	1.97
Child benefit	368.90	368.90	368.90	368.90	365.05	365.05	365.05	365.05	1.01	1.01	1.01	1.01	354.67	356.63	361.74	1.04	1.03	1.02
New year school allowance	18.90	18.90	18.90	18.90	18.78	18.78	18.78	18.78	1.01	1.01	1.01	1.01	18.18	18.04	18.52	1.04	1.05	1.02
Boni for children, since 2008	110.24	110.24	110.24	110.24	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A	111.12	112.25	112.25	0.99	0.98	0.98
<b>Taxes and Social Insurance contributions</b>																		
Income tax	2314.45	2364.57	2641.01	2743.25	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A	1969.03	2107.36	2412.84	1.18	1.12	1.09
Employee social contributions for healthcare	345.94	354.61	367.18	375.39	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Employer social contributions for healthcare	237.18	243.11	252.92	257.84	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A	781.16	823.34	865.31	0.92	0.89	0.88
Credited social contributions for healthcare	103.17	105.80	108.52	111.69	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Self-employed social contributions for healthcare	32.52	33.37	34.17	34.55	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Employee social contributions for health payment	61.35	39.70	19.38	19.75	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Employer social contributions for health payment	49.01	52.56	52.92	53.92	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A	36.28	38.42	40.25	3.28	2.63	2.02
Self-employed social contributions for health payment	2.90	2.98	3.05	3.09	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Credited social contributions for health payment	5.64	5.76	5.80	5.91	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Civil servant social contributions for pension	122.08	125.13	130.18	132.61	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A	168.38	183.00	191.34	0.73	0.68	0.68
Employee from the private sector social contributions for pension	711.62	729.56	758.76	773.52	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Self-employed social contributions for pension	92.92	95.36	97.62	98.73	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A	1432.86	1516.58	1594.99	1.14	1.11	1.09
Employer social contributions for pension	807.38	827.56	860.95	877.40	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Credited social contributions for pension	26.33	27.14	28.00	28.74	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						

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Employee social contribution for long-term care	171.18	175.48	181.80	185.59	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Social assistance recipient social contribution for long-term care	1.54	1.57	1.56	1.59	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A	182.39	192.09	201.70	1.01	0.98	0.97
Self-employed social contribution for long-term care	10.91	11.20	11.40	11.47	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						
Employer social contribution for accident	114.23	117.09	116.52	118.76	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A	111.44	118.81	118.55	1.08	1.04	1.04
Self-employed social contribution for accident	6.68	6.85	6.71	6.79	0.00	0.00	0.00	0.00	N/A	N/A	N/A	N/A						

Sources: EUROMOD computations, STATEC, IGSS, Ministry of Labor and Employment, SNAS, ADEM and own computations from IGSS Data warehouse

Table 4.9 - Distribution of equivalised disposable income

	EUROMOD				External		Ratio	
	2011	2012	2013	2014	2011	2012	2011	2012
D1	4.91	4.90	4.91	4.90	3.60	3.30	1.36	1.48
D2	5.75	5.75	5.86	5.79	5.30	5.20	1.08	1.11
D2	5.75	5.75	5.86	5.79	5.30	5.20	1.08	1.11
D3	6.51	6.56	6.49	6.54	6.30	6.00	1.03	1.09
D4	7.36	7.31	7.42	7.45	7.20	7.00	1.02	1.04
D5	8.36	8.37	8.38	8.37	8.30	8.00	1.01	1.05
D6	9.45	9.40	9.46	9.46	9.40	9.20	1.01	1.02
D7	10.66	10.72	10.71	10.68	10.70	10.40	1.00	1.03
D8	12.16	12.05	12.03	12.10	12.30	12.10	0.99	1.00
D9	14.10	14.16	14.11	14.08	14.70	14.60	0.96	0.97
D10	20.73	20.77	20.64	20.63	22.20	24.20	0.93	0.86
Median	32522.65	33333.14	34063.92	34574.73	32779.00	33301.00	0.99	1.00
Mean	36526.40	37487.89	38197.45	38758.34	36925.00	38442.00	0.99	0.98
Gini	24.54	24.61	24.35	24.34	28.00	30.40	0.88	0.81
S80/S20	3.27	3.28	3.23	3.25	4.10	4.60	0.80	0.71

Source : Euromod, EU-SILC

Table 4.10 - Poverty rates by gender and age

	EUROMOD				External		Ratio	
	2011	2012	2013	2014	2011	2012	2011	2012
<b>40% median HDI</b>								
Total	0.14	0.14	0.17	0.17	2.80	3.50	0.05	0.04
Males	0.14	0.14	0.18	0.18	3.60	3.60	0.04	0.04
Females	0.14	0.14	0.16	0.16	2.90	3.50	0.05	0.04
<b>50% median HDI</b>								
Total	1.33	1.42	1.30	1.41	7.10	8.40	0.19	0.17
Males	1.11	1.16	1.09	1.16	6.70	8.50	0.17	0.14
Females	1.54	1.67	1.51	1.66	7.50	8.30	0.21	0.20
<b>60% median HDI</b>								
Total	8.82	8.99	8.74	8.82	15.10	15.90	0.58	0.57
Males	8.57	8.77	8.42	8.47	14.70	15.70	0.58	0.56
Females	9.06	9.22	9.07	9.16	15.60	16.00	0.58	0.58
<b>70% median HDI</b>								
Total	22.29	22.07	21.59	21.75	24.70	25.70	0.90	0.86
Males	21.68	21.45	20.88	21.19	23.90	25.40	0.91	0.84
Females	22.89	22.69	22.29	22.31	25.60	26.10	0.89	0.87
<b>60% median HDI</b>								
0-15 years	11.84	12.36	12.25	12.45	22.30	23.30	0.53	0.53
16-24 years	15.00	14.99	14.54	14.67	20.20	21.60	0.74	0.69
25-49 years	9.04	9.17	8.79	8.80	15.00	14.90	0.60	0.62
50-64 years	6.45	6.63	6.46	6.54	11.60	12.90	0.56	0.51
65+ years	1.99	1.99	1.99	1.99	6.10	6.20	0.33	0.32

Source: Euromod, EU-SILC

### **ANNEX 3: POLICY EFFECTS IN 2013-14**

Table 1 and Figure 1 show the effect of 2014 policies on mean equivalised household disposable income by income component and income decile group. The effect is estimated as a difference between simulated household net income under the 2014 tax-benefit policies (deflating monetary parameters by Eurostat's Harmonized Index of Consumer Prices, HICP) and net incomes simulated under 2013 policies, as a percentage of mean equivalised household disposable income in 2013.

Table 1 and Figure 1 show that the net effect of 2013 policies in comparison with (deflated) 2014 policies did not have any major impact on household disposable income due to the lack of major policy changes in the period analysed.

However, there were increases in pension incomes because pensions grew at a rate above the HCIP inflation, resulting in an increase in average household disposable income which occurs across the whole distribution although with a smaller proportional effect at the very top. On average this is largely balanced by increases in income tax. There were no changes to the income tax rules in the period analysed. However, the negative effect of taxes is due to a combination of the tax paid on higher pensions and other taxable benefits and fiscal drag. Tax thresholds fell in real terms due to not being indexed for inflation, generating an increase in tax liabilities.

Table 1: Policy effects in 2013-2014, using the CPI-indexation, %

Decile	Original income	Public pensions	Means-tested benefits	Non means-tested benefits	Employee SIC	Self-employed SIC	Direct taxes	Disposable income
1	0.00	0.10	0.30	-0.19	-0.02	0.00	-0.16	0.04
2	0.00	0.30	-0.03	-0.16	-0.02	0.00	-0.17	-0.08
3	0.00	0.33	-0.06	-0.13	-0.01	0.00	-0.20	-0.07
4	0.00	0.49	-0.02	-0.08	-0.02	0.00	-0.29	0.08
5	0.00	0.54	0.00	-0.07	-0.02	0.00	-0.36	0.08
6	0.00	0.59	0.00	-0.04	-0.02	0.00	-0.43	0.09
7	0.00	0.45	-0.01	-0.04	-0.03	0.00	-0.40	-0.03
8	0.00	0.47	0.00	-0.03	-0.03	0.00	-0.45	-0.04
9	0.00	0.43	0.00	-0.02	-0.03	-0.01	-0.43	-0.06
10	0.00	0.36	0.00	-0.01	-0.04	-0.01	-0.33	-0.04
Total	0.00	0.41	0.02	-0.05	-0.03	0.00	-0.34	0.02

Notes: shown as a percentage change in mean equivalised household disposable income by income component and income decile group. Income decile groups are based on equivalised household disposable income in 2013, using the modified OECD equivalence scale. Each policy system has been applied to the same input data, deflating monetary parameters of 2014 policies by Eurostat’s Harmonized Index of Consumer Prices (HICP).

Figure 1: Policy effects in 2013-2014, using the CPI-indexation, %

