



ATOZ ALERT

Luxembourg government submits draft law introducing a single tax class for individual taxpayers from 2028

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On 6 January 2026, the Luxembourg government released [draft law No. 8676](#) (the “Draft Law”) introducing a single tax class for income taxation of individuals starting from the 2028 tax year. In line with its 2023-2028 coalition program, the Luxembourg government proposes to reform the tax scale applicable to individual taxpayers.

The Draft Law provides for a comprehensive reform establishing a framework based on individual taxation and neutrality with respect to civil status. The single tax class intends to replace the three tax classes currently in force, with a transitional period allowing married couples and registered partners to continue collective taxation under a tax scale reflecting the current tax class 2 for a period of twenty-five years.

This Alert outlines the key features of the proposed reform.

Objectives of the reform

Under the current framework, individual taxation is divided into three main tax classes:

- tax class 1, generally for single individuals;
- tax class 1a, typically for widowers, pensioners or single individuals benefitting from a child tax allowance; and
- tax class 2, applying to married couples and registered partners under collective taxation.

Married couples and registered partners may choose between three regimes: collective taxation, pure individual taxation, or individual taxation with income reallocation. As a result, the taxation of individuals is currently strongly influenced by the family model of the taxpayer.

The Draft Law establishes individual taxation, rather than joint taxation, as the cornerstone of income taxation applicable to individual taxpayers, introducing a single tax class and a unified progressive scale. Under this framework, each spouse or partner will be taxed separately on their own income, and the income level of their spouse or partner or changes in a taxpayer’s family situation no longer directly affect their tax position.

The reform aims to ensure fiscal neutrality with respect to civil status, enhance predictability and individual financial autonomy, and achieve greater tax fairness through simplified and more transparent taxation, while increasing purchasing power of households.

Introduction of a single tax class and optional transitional regime

The Draft Law replaces the current three tax classes with one single tax class, which will apply the following brackets:

Taxable income (EUR)	Tax rate (%)
Up to 26,650	0%
26,650 – 31,500	11%
31,500 – 35,500	14%
35,500 – 39,400	19%
39,400 – 44,400	25%
44,400 – 49,500	32%
49,500 – 117,500	39%
117,500 – 176,200	40%
176,200 – 234,800	41%
Above 234,800	42%

Principle: mandatory application for all taxpayers

The single tax class will apply **as from 1 January 2028 to all taxpayers**, i.e. taxpayers currently subject to tax class 1 or 1a, as well as to couples married or entered into a registered partnership after that date (the “newly married or partnered couples”).

Transitional period for couples married or entered into a registered partnership before the entry into force of the reform (i.e., before 1 January 2028)

A tax scale, generally reflecting the tariff currently applicable to tax class 2, and collective taxation based on the splitting method will continue to apply during a transitional period of twenty-five years (i.e., until tax year 2052) to the so-called “former married or partnered couples”.

However, former married or partnered couples may, at any time during the transitional period, jointly opt for the application of the new regime and therefore for individual taxation under the single tax class. Once this option is exercised, it is definitive and irrevocable, and a return to collective taxation is no longer possible. Moreover, once collective taxation no longer applies, joint and several liability for former married or partnered couples is abolished, with each spouse or partner becoming solely liable for the payment of their own personal income tax.

Since partners are taxed jointly only upon joint request (and not automatically as is the case for married taxpayers), partners in a registered partnership before the reform came into effect may, throughout the transitional phase, continue to opt for joint taxation upon joint request as long as they have not waived joint taxation in the previous year. Partners will be deemed to have opted for the application of the new single tax class starting from the first tax year for which they do not make a joint request for collective taxation. From that year onward, they can no longer revert to joint taxation.

The Draft Law also provides that in the event of death or divorce, the benefit of tax rates under the tax class 2 will be maintained for a period of five years (instead of three years under the current rules).

From a general perspective, commentaries to the Draft Law notes that the single tax class is more favorable for taxpayers currently subject to tax class 1 and remains broadly comparable for taxpayers currently subject to tax class 1a.

The situation of married or partnered couples under the new regime may vary depending on the distribution of taxable income between spouses or partners. This single tax class is more favorable for spouses or partners if the income earner with the lowest taxable income contributes at least 25% of the couple's total income. The splitting mechanism applicable under tax class 2, which mitigates the progressivity of income tax for couples with unequal incomes, is not fully replicated under the single tax class, thereby justifying the transitional regime in order to protect legitimate expectations of existing couples.

Key accompanying measures

Other measures introduced by the Draft Law aim to harmonise tax treatment under the new single tax class and standardise benefits previously linked to specific tax classes:

- *Early childhood allowance*: Introduction of a new allowance of EUR 5,400 per child under three, recognising periods when professional activity is often reduced.
- *Deduction of voluntary pension contributions for a spouse or partner*: Contributions paid on behalf of a spouse or partner who has reduced or ceased professional activity are deductible as special expenses, preserving long-term pension rights.
- *Child tax allowances and single-parent credit*: Child-related tax benefits are extended to all parents living with their children, generally allocated 50/50 between parents (100% for single parents). The single-parent tax credit is increased to EUR 4,008 (from EUR 3,504), reflecting the particular needs of single-parent households.
- *Increases in deduction ceilings*:
 - Flat-rate deduction for domestic help, care, and childcare expenses: increased from EUR 5,400 to EUR 6,000.
 - Deduction for home savings contributions: increased from EUR 672 to EUR 900, and up to EUR 1,500 for taxpayers aged 18–40.
 - Deduction ceilings for interest and insurance expenses: increased from EUR 672 to EUR 900.
 - Adjustments to unavoidable extraordinary expenses: the applicable income brackets are widened.
- *Procedural simplification*: Abolition of the annual tax reconciliation, replaced by taxation by assessment upon request for eligible resident and non-resident taxpayers.
- *Indexation of the tax scale*: The Draft Law proposes a mechanism to adjust the tax scale after three indexation steps.

Conclusion

The single tax class is scheduled to apply from the 2028 tax year. It marks a significant reform of the personal income taxation, accompanied by a lengthy transitional period for couples married or entered into a registered partnership before 1 January 2028. An online simulator is expected to be available in 2027 to help these couples decide whether to remain under the collective regime during the transitional period or opt for the application of the new single tax class.

The Draft Law will now proceed through the normal legislative process, including its review by the Council of State and may be amended if the latter deems the reform unconstitutional despite the government's extensive arguments to the contrary in the Draft Law's commentaries.

We will continue to monitor developments and provide updates as the reform progresses.

Do you have any questions?



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