

ATOZ ALERT

Luxembourg Parliament adopts the law introducing a single tax class for individual taxpayers from 2028

29 October 2026

On 28 October 2026, the law introducing a single tax class for income taxation of individuals (the “Law”) was adopted by the Luxembourg Parliament. The new single tax class will be applicable starting from the 2028 tax year.

The Law provides for a comprehensive reform of the taxation of individuals 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 to apply the 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 Law.

Objectives of the reform

Under the current framework, there are three tax classes and the tax class applied to an individual depends on their personal situation:

- 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 subject to collective taxation.

Married couples and registered partners may choose between three regimes: collective taxation, 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 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 tax 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 Law replaces the current three tax classes with one single tax class, which will apply the following rates:

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. This includes taxpayers currently subject to tax class 1 or 1a, as well as to married taxpayers or taxpayers in a registered partnership as from 1 January 2028 (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 provided that they have shared a common domicile or residence throughout the tax year), 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. The joint application must be submitted no later than 31 December of the tax year following the tax year in question and shall result in the partners being taxed on the basis of taxation by assessment.

Partners will be automatically 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 within the time limit. From that year onward, they can no longer revert to joint taxation; it has an irrevocable effect.

The Law also extends the period during which a taxpayer may benefit from tax class 2 following a spouse's death or divorce: the benefit may be maintained for five years, rather than the three years allowed under the current rules, before the taxpayer moves to the single tax class. To qualify, the spouses must have been jointly taxed in the tax year preceding the year in which the marriage ended. The taxpayer may nevertheless elect to apply individual taxation from the year of the death or divorce. This extension does not apply to partners following

the end of their partnership or the death of one partner. In this respect, the Law formalises an exclusion that already applied in practice.

From a general perspective, the commentaries to the [draft law n°8676](#) note that the new single tax class is more favourable for taxpayers currently subject to tax class 1 and remains broadly comparable for taxpayers currently subject to tax class 1a.

However, the situation of married or partnered couples under the new regime will vary depending on the distribution of taxable income between spouses or partners. This single tax class is more favourable 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 incomes that differ materially, is not fully replicated under the single tax class, thereby justifying the twenty-five years transitional regime in order to protect legitimate expectations of former married or partnered couples.

Key accompanying measures

Other measures introduced by the Law aim to harmonise the 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, provided the child is under three years old at the start of the tax year. Such a measure recognises that having a young child leads to a temporary reduction in working hours until the child is eligible for early childhood education from the age of three.
- Deduction of voluntary pension contributions for a spouse or partner: Contributions paid by a taxpayer on behalf of their spouse or partner under continued or voluntary pension insurance under the Luxembourg social security scheme or a foreign statutory scheme (targeted by a bilateral or multilateral social security agreement), are deductible as special expenses at the level of the taxpayer paying on behalf of their spouse or partner.
- 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). Taxpayers with adjusted taxable income between EUR 0 and EUR 60,000 will now be able to claim the EUR 4,008 single-parent tax credit. The single-parent tax credit is reduced if their taxable income exceeds EUR 60,000. This reflects 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 (at the beginning of the tax year).
 - Deduction ceilings for interest and insurance expenses: increased from EUR 672 to EUR 900.
 - Adjustments to unavoidable extraordinary expenses: the income brackets used to determine the expenses are extended.
- Procedural simplification: The annual tax reconciliation is abolished and replaced by a taxation by assessment upon request for eligible resident and non-resident taxpayers.
- Indexation of the tax scale: The Law provides for an automatic adjustment of the personal income tax brackets set out in Articles 118 and 118bis LIR by a factor of 1.1038 following the fourth wage index adjustment. The adjustment takes effect on 1 January of the tax year following the year in which that fourth adjustment occurs.

- This replaces the mechanism in the original text, under which the tax scale was adjusted after three indexations. The provision will be introduced through a reinstated Article 125 of the Luxembourg income tax law.

Conclusion

The single tax class is scheduled to apply from the 2028 tax year onwards. 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 continue to apply the collective regime during the transitional period or to opt for the application of the new single tax class.

The Council of State should now grant the Law a dispensation from the second constitutional vote before it can be promulgated. Once the Law has been enacted by the Grand-Duc, it will be published in the *Journal officiel du Grand-Duché de Luxembourg*.

Questions?



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