

Luxembourg: new government announces important increase in the minimum wage

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The programme of the new government in Luxembourg includes a number of important social policy proposals. Among them is an increase in the minimum wage of €100 net per month. The government has very recently unveiled its plans as to how this will be implemented and financed. One third of the increase will be borne by employers and two thirds by the state.



Description

An important reform included in the programme of the new (December 2018) Luxembourg government is an increase in the minimum wage (SSM – salaire social minimum) of €100 net per month from 1 January 2019 onwards. This was a subject of pre-electoral discussions headed by trade unions and was included in the electoral programme of the Socialist party, one of the three parties forming the current government coalition.

On 7 March 2019, the Finance Minister and the Minister of Labour presented the details of this reform, organised as follows:

1) One third of the net increase will be provided through a gross SSM increase and will thus be borne by employers. The first part of this gross increase has already been implemented (Law of 21 December 2018); it has put in place an SSM increase of 1.1% on 1 January 2019 in the context of the biennial review of the minimum wage: according to the government, an adaptation was needed in view of the economic conditions and the general development of salaries. The second part will be achieved through a new draft law (No. 7416) which was tabled in Parliament on 1 March 2019, and which further increases the SSM by 0.9%, thus bringing the gross rise to 2%, i.e. €41.21 (and €49.45 for the “qualified SSM”, which is 20% higher and is granted to more qualified workers).

2) The other two thirds of the net increase will be provided through tax relief, and will thus be borne by the state (i.e. tax payers). To this end the 2019 Budget draft law (No. 7450) introduces a special tax credit (CISSM - credit d’impôt salaire social minimum). This tax credit (€70) is paid out monthly by the employer together with the earned salary, for monthly salaries between €1,500 and €2,500. It is also granted to workers whose salary is higher than the minimum wage: otherwise, a gross salary slightly higher than the minimum wage would lead to a net salary lower than the minimum wage. However, the tax credit is reduced linearly to 0 for monthly salaries between €2,500 and €3,000.

3) As the minimum wage increase was, in the past, mostly followed by an increase in the minimum income (Revis – Revenu d’inclusion sociale) and as the Revis was also increased by 1.1% on 1 January 2019 (Law of 21 December 2018), the Minister for Family has meanwhile tabled a second draft law (No. 7417) in the Parliament, aiming to increase the Revis by another 0.9%, again in line with the SSM. The additional net increase in the SSM through the tax credit will not be followed by a similar measure for the Revis.

4) As a number of laws concerning certain social benefits refer to the minimum wage, the government has indicated in the coalition agreement that these laws will have to be adapted.

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Outlook and commentary

In the explanations (Exposé des Motifs) accompanying draft law No. 7416, the government explains that such a structural increase of the minimum wage has not occurred since 1973 and furthermore that the national statistical institute (STATEC) study on reference budgets has shown that a person working 40 hours a week needs an income of €1,922 per month to live a decent life, whereas the net income of a minimum wage earner is €1,727. The €100 increase would thus not be sufficient. Moreover, the reference budget was recalculated in 2018: the amount is now €1,996; the SSM increase needed to reach it would therefore be €269 – i.e. 2.5 times more than the €100 planned increase.

Regarding point 4) above, there is so far no provision in the tabled draft laws to amend other laws. Nevertheless, there is a relationship between minimum wage and minimum income: for those workers eligible for the minimum income scheme (Revis), because their income from the minimum wage is lower than the minimum income for their household composition, the SSM increase will lead to a decrease in the amount allocated through the minimum income scheme. As a result, their total net income will not increase. Therefore, another amendment to the Revis law will have to be introduced.

Further reading

Chambre des Députés (2018), Projet de loi modifiant l'article L.222-9 du Code du travail, Avis de la Chambre de Commerce, Document parlementaire No. 7381/06, Luxembourg.

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Chambre des Députés (2019), Projet de loi concernant le budget des recettes et dépenses de l'Etat pour l'exercice 2019 (intitulé de citation), Document parlementaire No. 7450, Luxembourg.

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