



Luxembourg Social Climate Plan

—

Draft Proposal

October 2025

Note on the budgetary implications of the Social Climate Plan:

As this is a draft document subject to change during the public consultation phase, the measures proposed herein have not yet been budgeted. It is understood that any measures within the Social Climate Plan that affect public finances will be subject to the standard budgetary procedure.

Executive Summary

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2.3. Component C3 – direct income support

Direct income support is designed to partially offset the financial impact of climate policies—particularly the introduction of carbon pricing—on vulnerable households and micro-enterprises. This measure helps preserve purchasing power while advancing a fair transition, ensuring that no one is left behind in the gradual decarbonization of the economy.

Measure Title	No. 43 Social financial compensation for CO ₂ Tax
Description	<p>Since 2021, Luxembourg has applied a CO₂ tax on fossil fuels. In line with the Integrated National Energy and Climate Plan (NECP), the revenue generated from this tax is allocated in a balanced manner: 50% is dedicated to financing climate protection and energy transition measures, including subsidies for energy renovation, electromobility, and renewable energy; the remaining 50% is allocated to social compensation measures, such as the CO₂ tax credit and the cost-of-living benefit, aimed at supporting vulnerable households and ensuring a fair transition.</p> <p>The provisions governing the evolution of the CO₂ tax for the period 2027–2030 are scheduled for reassessment in 2026. This review will consider both Luxembourg’s national climate targets and relevant developments in neighbouring countries, particularly in the context of the European Emissions Trading System (EU ETS2).</p> <p>Regardless of the final decision regarding Luxembourg’s participation in EU ETS2, the government remains committed to protecting vulnerable households and micro-enterprises from potential increases in energy costs. It therefore guarantees that any form of carbon taxation—whether direct (e.g. CO₂ tax) or indirect (e.g. market-based mechanisms)—will be accompanied by appropriate social compensation measures.</p>
Type of instrument	Fiscal
Target(s)	Vulnerable households
Responsible entity(ies)	MFIN, MECB, MECO
Reference(s)	Measure No. 105 of the NECP

Measure Title	No. 44 CO₂ Tax Credit
Description	<p>The CO₂ Tax credit (CI-CO₂) for self-employed persons, employees, and pensioners was introduced into the Income Tax Act (LIR) as part of the Tripartite Agreement of 3 March 2023. This mechanism is designed to offset the impact of the carbon tax on vulnerable households, promoting social justice.</p> <p>Starting from the 2024 tax year, the CO₂ Tax Credit for employees will be automatically included in monthly payslips and disbursed directly by employers. The government remains committed to maintaining this compensation mechanism to ensure long-term social equity and protect household purchasing power.</p>
Type of instrument	Economic
Target(s)	Vulnerable households
Responsible entity(ies)	MFIN
Reference(s)	

Measure Title	No. 45 Regular adaptation of the cost-of-living allowance
Description	<p>The energy transition presents a vital opportunity to build a more sustainable and resilient society. To ensure that all citizens can benefit from this transformation, it is essential to support households—particularly those with low incomes—by implementing measures that are both accessible and responsive to social realities. Vulnerable households are often the most exposed to rising energy costs and have the least capacity to adapt to the changes brought about by climate policies.</p> <p>In addition to the increase in the energy bonus (no. 44), the government raised, in 2025, the amounts of the cost-of-living allowance ('allocation de vie chère'), paid by the National Solidarity Fund (FNS). These benefits are an essential tool for protecting the purchasing power of the most vulnerable households.</p> <p>Furthermore, the government is ready, if necessary, to adjust the amounts of the cost-of-living allowance in line with changes in energy prices.</p>
Type of instrument	Economic
Target(s)	Vulnerable households
Responsible entity(ies)	MFSVA
Reference(s)	Government in Council Regulation of 17 July 2024 concerning the granting of the Cost-of-Living benefit for the year 2025

Measure Title	No. 46 Increase in the energy allowance in 2025
Description	<p>In 2022, the Luxembourg government introduced an energy allowance, coupled with the cost-of-living benefit, to support vulnerable households facing soaring energy prices during the energy crisis.</p> <p>To further combat the risk of energy poverty and provide targeted assistance, the energy allowance will be tripled in 2025. The maximum gross monthly income threshold for eligibility is set at 25% above that of the cost-of-living benefit.</p> <p>To broaden the reach of this support, a reduced energy allowance—equal to 50% of the full energy allowance—will be introduced for households with a monthly income between 25% and 30% above the cost-of-living benefit threshold.</p>
Type of instrument	Economic
Target(s)	Vulnerable households
Responsible entity(ies)	MFSVA
Reference(s)	

Measure Title	No. 47 Automatic payment of the cost-of-living benefit and energy allowance to REVIS beneficiaries
Description	<p>The social inclusion income (REVIS), administered by the National Solidarity Fund (FNS), is designed to support vulnerable households and ensure a basic standard of living for individuals who meet the eligibility criteria.</p> <p>To simplify access to assistance, the automatic granting of both the cost-of-living benefit and the energy allowance has been introduced for REVIS beneficiaries. This measure addresses the issue of non-take-up, as a significant proportion of eligible individuals do not apply for these benefits.</p> <p>To further combat the underutilisation of municipal social support, the FNS will begin automatically sharing data with municipalities regarding cost-of-living benefit recipients residing within their jurisdictions. This will enable municipal authorities to implement an automatic payment system for local assistance, modelled on the cost-of-living benefit, thereby improving outreach and ensuring that support reaches those who need it most.</p>
Type of instrument	Economic
Target(s)	Vulnerable households
Responsible entity(ies)	MFSVA, Municipalities
Reference(s)	

Measure Title	No. 48 Creation of a one-stop social service centre
Description	<p>To address the under-utilisation of social benefits, the government has decided to establish a new social services centre in the form of an Economic Interest Group (EIG). Its mission is to raise awareness, inform, and advise citizens about the full range of available social support measures.</p> <p>The new centre will feature a digital information platform that enables users to consult available national and local assistance schemes, a social helpline, a physical office, and a mobile outreach team. This mobile unit will operate in the field to actively engage with citizens and promote awareness of the social benefits accessible in Luxembourg.</p>
Type of instrument	Economic
Target(s)	Vulnerable households
Responsible entity(ies)	MFSVA
Reference(s)	