

Overview Luxembourg Tax

Key Features

Corporate Income Tax (CIT), Surcharge Tax (for employment fund), Municipal Business Tax (MBT)	21% if the taxable income exceeds EUR 15,000; otherwise 20%. A 7% surcharge tax for the employment fund is levied on the corporate income tax due. A municipal business tax is also due. The amount depends on the municipality where the business is located (6.75% for Luxembourg-City). The combined effective tax rate for a company with registered seat in the City of Luxembourg is 29.22%.
Withholding Taxes	
- on dividends	15% (unless reduced rate acc. to double tax treaty applies) Exempt if the conditions of the participation exemption regime are met (i.e. 10% shareholding or min. EUR 1.2 million acquisition costs; 12 months holding period; qualifying companies);
- on interest	0%; 15% on interest on profit-sharing bonds;
- on royalties	10% if paid by a qualifying paying agent (e.g. bank) to a resident individual; 0%
- on liquidation proceeds	0%
Debt / Equity Ratio	According to the general tax practice holding companies have to respect a debt/equity ratio of 85/15 for all shareholder liabilities incurred by the company. Otherwise the interest on the exceeding part of the liabilities can be re-qualified as dividend for tax purposes and is, therefore, not tax deductible and may be subject to withholding taxes.
Anti-avoidance legislation	No specific anti-avoidance legislation. Only general anti-abuse provision.
Controlled foreign corporation rules	No specific CFC-rules

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Transfer Pricing	No specific transfer pricing rules. Only general provision exists which corresponds to the wording of the arm's length principle set forth in Art. 9 of the OECD Model. However, transfer pricing guidance is provided for intra-group financing activities.
Net Wealth Tax	<p>Tax rate</p> <ul style="list-style-type: none"> 0.5% for a tax base of up to EUR 500 million + 0.05% of the portion of the tax base exceeding EUR 500 million <p>Tax base</p> <p>Adjusted net wealth (unitary value) of the company (exemptions apply, e.g. on qualifying participations or certain assets located in treaty countries)</p> <p>Net wealth tax can be reduced if a special reserve is created and not distributed for at least 5 years (subject to limitations and conditions)</p> <p>Minimum net wealth tax</p> <p>EUR 3,210 for finance and holding companies (fixed financial assets, receivables owed by affiliated companies, marketable securities and cash \geq 90% of balance sheet total) where the balance sheet total exceeds EUR 350,000 EUR.</p> <p>Between EUR 535 and EUR 32,100, based on the balance sheet total, for all other companies</p> <p>Securitization companies, SICARs (Société d'investissement en capital à risque), SEPCAVs (Société d'Epargne-Pension à Capital Variable) and ASSEPs (Association d'Epargne-Pension) are generally exempt from the net wealth tax but still remain subject to the minimum net wealth tax.</p>

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VAT	<p>17% (standard rate); 14% (intermediary rate); 8% (reduced rate); 3% (super reduced rate); 0% (VAT exemptions)</p>
Duties / Transfer Taxes	<p>Real estate located in Luxembourg that is transferred in exchange for consideration other than shares (e.g. a cash payment, assumption of debt) is subject to transfer tax at a rate of 6% of the value of the real estate, plus an additional transfer duty of 1% and, for certain real estate located in Luxembourg-City, a supplementary duty of 3% is due.</p> <p>Real estate located in Luxembourg that is transferred in exchange for shares to a civil or commercial company is subject to transfer tax at a reduced rate of 0.6% plus an additional transfer duty of 0.5% and, for certain real estate located in Luxembourg-City, a supplementary duty of 0.3% is due.</p> <p>Fixed rate of EUR 75 in case of a contribution within a corporate reorganization.</p>

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Instruments for tax optimization

- Participation Exemption Regime on dividends	Exempt dividends from qualifying shareholdings under certain conditions (i.e. 10% shareholding or min. EUR 1.2 million acquisition costs; 12 months holding period; qualifying subsidiary); 50% exemption if the holding period or the threshold requirement is not met by a qualifying subsidiary; Otherwise fully taxable
- Participation Exemption Regime on capital gains	Exempt capital gains from the sale of qualifying shareholdings under certain conditions (i.e. 10% shareholding or min. EUR 6 million acquisition costs; 12 months holding period; qualifying subsidiary); Otherwise fully taxable
- Tax Loss Carry Forwards	Tax loss carry forward unlimited in time and value
- Roll-Over Relief	Capital gains from the sale of non-depreciable assets may be reinvested on a tax-neutral basis under certain conditions.
- Merger	Tax neutrality regime available to absorbed company under certain conditions; exemption of capital gains realized by an absorbing parent company under certain conditions
- Tax Consolidation	Profits and losses of Luxembourg group companies may be pooled under certain conditions (i.e. participation \geq 95%; minimum term of 5 years; qualifying companies) Horizontal and vertical consolidation possible.
- Investment Tax Credits	12% of the increase in investment in qualifying tangible depreciable assets during the tax year; 7% on the first EUR 150,000 of qualifying new tangible depreciable investments (2% on the part exceeding EUR 150,000)
- Luxembourg investment vehicles	For a tax-efficient structuring Luxembourg provides for a number of investment vehicles (companies and funds). Reference is made to our separate tables ("Overview of available Luxembourg vehicles" and "Main characteristics of Luxembourg corporate investment entities")