Overview Luxembourg Tax

Key Features

Corporate Income Tax (CIT), Surcharge Tax (for employment fund), Municipal Business Tax (MBT)	A reduced CIT rate of 15% is applicable if the taxable income is less than EUR 25,000. If the taxable income is between EUR 25,000 and 30,001, the CIT charge will be EUR 3,750 plus 39% of the basis above EUR 25,000. If the taxable income exceeds EUR 30,001, the CIT rate is 19%. In addition, a 7% surcharge tax for the employment fund is levied on the corporate income tax due and a municipal business tax will be levied whereby the amount depends on the municipality where the business is located (6.75% for Luxembourg-City). Accordingly, the combined effective tax rate for a company in Luxembourg city is 27.08% for 2017.
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; 20% if paid by a qualifying paying agent (e.g. bank) to a resident individual;
- on royalties	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.

Overview Luxembourg Tax (cont'd)

Transfer Pricing

Effective as from 2015, Luxembourg introduced in its tax law the arm's length principle and defined what related parties are. Effective as from 2017, Luxembourg added further rules concerning the transfer pricing practice and issued a new circular providing for some guidance and clarification and which follows closely the principles of the OECD TP Guidelines.

Based on these rules a comparability analysis is required in order to determine whether the remuneration realized by an intra-group financing company complies with the arm's length principle.

This analysis needs to consider the contractual terms, contains a functional and risk analysis as well as an analysis which determines the level of equity which is required at the level of the intra-group financing company to assume the risks ("equity at risk"). The equity at risk has then to be remunerated at arm's length.

In addition, certain substance requirements need to be fulfilled and economic reasons for such transactions need to be shown.

Two simplification rules are provided by the new circular:

• Companies having a profile comparable to that of credit institutions and investment firms subject to the Regulation (EU) No 575/2013 ("CRR") which reflects the Basel III rules, and complying with the minimum capital requirements set forth in the CRR, will be considered as having sufficient equity at risk. Furthermore, an after-tax return of 10% on equity will be considered as arm's length remuneration for the financing and treasury functions performed by such companies. This percentage will be revised on a regular basis by the Luxembourg tax authorities.

• Intra-group financing companies complying with the above substance requirements but acts as a pure intermediary (very limited risks), will be considered as carrying out at arm's length transactions if its after-tax return corresponds to at least 2% of the amount of assets financed. This percentage will be revised on a regular basis by the Luxembourg tax authorities.

This will also be part of an exchange of information with other countries with which Luxembourg has concluded double tax treaties.

It is possible to apply for an advance pricing agreements ("APA") which are subject to an administration fee up to EUR 10.000 per APA charged by the tax authorities.

Country-by-country reporting

In addition, Luxembourg implemented the country-by-country ("CbC") reporting in its national law. The CbC reporting applies to multinational groups whose total consolidated group revenue exceeds EUR 750 mio. during the previous fiscal year and which are required to prepare consolidated financial statements.

Overview Luxembourg Tax (cont'd)

Net Wealth Tax	Tax rate 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 Tax base Adjusted net wealth (unitary value) of the company (exemptions apply, e.g. on qualifying participations or certain assets located in treaty countries) Net wealth tax can be avoided if a special reserve is created and not distributed for at least 5 years (subject to limitations and conditions) Minimum net wealth tax EUR 4,815 for finance and holding companies (fixed financial assets, receivables owed by affiliated companies, marketable securities and cash ≥ 90% of balance sheet total) where the balance sheet total exceeds EUR 350.000 EUR. Between EUR 535 and EUR 32.100, based on the balance sheet total, for all other companies 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.

Overview Luxembourg Tax (cont'd)

VAT	17% (standard rate); 14% (intermediary rate); 8% (reduced rate); 3% (super reduced rate); 0% (VAT exemptions)
Duties / Transfer Taxes	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. 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. Fixed rate of EUR 75 in case of a contribution within a corporate reorganization.

Overview Luxembourg Tax (cont'd)

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	The use of losses generated as from FY 2017 is limited in time. Losses generated during and after FY 2017 will only be able to be carried forward for a maximum period of 17 years.Tax losses that arose before FY 2017 are not affected by this limitation.
- 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	13% of the increase in investment in qualifying tangible depreciable assets during the tax year; 8% 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")