Luxembourg Country Profile

EU Tax Centre

July 2016

Key tax factors for efficient cross-border business and investment involving Luxembourg

EU Member State Yes

Double Tax Treaties With:

Albania[(a)]	Estonia	Rep. of Korea	Pakistan[(a)]	Syria[(a)]
Argentina[(a)]	Finland	Kuwait[(a)]	Panama	Tajikistan
Andorra	France	Kyrgyzstan[(a)]	Poland	Taiwan
Armenia	Georgia	Latvia	Portugal	Thailand
Austria	Germany	Lebanon[(a)]	Qatar	Trinidad & Tobago
Azerbaijan	Greece	Liechtenstein	Romania	Tunisia
Bahrain	Guernsey	Lithuania	Russia	Turkey
Barbados	Hong Kong	Laos	San Marino	UAE
Belgium	Hungary	Macedonia	Saudi Arabia	UK
Botswana[(a)]	Iceland	Malaysia	Senegal[(a)]	Ukraine[(a)]
Brunei[(a)]	India	Malta	Serbia[(a)]	US
Brazil	Indonesia	Mauritius	Singapore	Uzbekistan
Bulgaria	Rep. of Ireland	Mexico	Slovakia	Vietnam
Canada	Isle of Man	Moldova	Slovenia	
China	Israel	Monaco	South Africa	
Croatia)	Italy	Morocco	Spain	
Cyprus[(a)]	Japan	Netherlands	Sri Lanka	
Czech Rep.	Jersey	New Zealand[(a)]	Seychelles	
Denmark	Kazakhstan	Norway	Sweden	
Egypt[(a)]		Oman[(a)]	Switzerland	

Note: (a) Treaty initialed/signed/approved, but not yet in force

Forms of doing business Public limited liability company ("société anonyme - SA"), Private limited liability company ("société à responsabilité limitée - SARL")

Legal entity capital requirements SA: minimum share capital of EUR 31,000, 1/4 of which must be paid up at incorporation. Share capital may be represented by bearer and/or registered shares, as well as by voting and non-voting shares.

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SARL: minimum share capital of EUR 12,500 fully paid up at incorporation. Capital is divided in registered shares.

Residence and tax system

A company is tax resident in Luxembourg if its statutory seat or its place of central administration is in Luxembourg. Corporate income tax is levied on worldwide income of resident companies.

Compliance requirements for CIT purposes

The tax year is generally the calendar year. Filing of corporate tax returns (including municipal business and net wealth tax returns) by May 31 of the following year. Advance payments of corporate income tax are due quarterly on March 10, June 10, September 10 and December 10. Advance payments of municipal business tax and net wealth tax are due quarterly on February 10, May 10, August 10 and November 10. The amount of the advance payment is based on the latest tax assessment. For certain payments (e.g. dividends), specific forms are to be filed.

Tax rate

The standard corporate income tax rate is 29.22 percent (Luxembourg City). This includes corporate income tax, municipal business tax and the contribution to the employment fund.

Withholding tax rates

On dividends paid to non-resident companies

15 percent (may be reduced, even to 0 percent, under applicable treaties or domestic rules).

On interest paid to non-resident companies

0 percent (except profit participating bond, hybrid equity loan).

On patent royalties and certain copyright royalties paid to non-resident companies

0 percent.

On fees for technical services

No.

On other payments

Yes on certain payments (e.g. salaries, directors' fees, payments connected with non-resident literary activities and artist's performances and sports activities in Luxembourg, in certain cases).

Branch withholding taxes

0 percent.

Holding rules	Dividend received from resident/non-resident subsidiaries Participation exemption (100%) applies (at least 10 percent or acquisition price of EUR 1,200,000, minimum uninterrupted holding period of 12 months or commitment). Capital gains obtained from resident/non-resident subsidiaries Participation exemption (100%) applies (at least 10 percent or acquisition price of EUR 6,000,000, minimum holding period of 12 months or commitment).
Tax losses	Tax losses may be carried forward indefinitely but a carry-back is not allowed.
Tax consolidation rules/Group relief rules	Yes, for corporate income tax and municipal business tax, but not for net wealth tax purposes. A Luxembourg parent company (or a Luxembourg permanent establishment of a fully taxable non-resident company) and its direct or indirect 95 percent subsidiaries can, under certain conditions, apply for treatment as a fiscal unity. As of the tax year 2015, new measures provide for the possibility to apply for a "horizontal" tax unity whereby domestic fully taxable companies / permanent establishment of a fully taxable non-resident company can form a tax unity group without having their parent company (that could be a fully taxable Luxembourg company, a domestic permanent establishment of a fully taxable foreign company, a fully taxable EEA company, a fully taxable permanent establishment of a fully taxable EEA company) being part of the tax unity.
Registration duties	Only a fixed fee of EUR 75 is due upon certain transactions (e.g. incorporation of a Luxembourg company).
Transfer duties	On the transfer of shares 0 percent (provided the company is not a real estate property holding company). On the transfer of land and buildings Real estate transfers are generally subject to transfer taxes of 7 (for real estate assets located outside Luxembourg City) and 10 percent (for real estate assets located in Luxembourg City). Stamp duties On any deed that is registered, depending on the size of document (mainly notarial deeds). Real estate taxes Land tax of 0.7 to 1 percent on unitary value of real estate property (as fixed by tax administration based on provisions of the evaluation law), multiplied by a coefficient ranging from 120 to 1250 percent, depending on the type of real estate property and the municipality in Luxembourg.

Controlled Foreign Company rules	No
Transfer pricing rules	General transfer pricing rules The Luxembourg income tax law makes explicit reference to the arm's length conditions agreed between independent businesses as a standard for evaluating the conditions agreed between related parties. This standard is applied for both resident and non-resident parties and allows for an upwards or downwards adjustment of profits for transfer pricing purposes. There is a circular for intra-group financing companies, which generally refers to the OECD guidelines and provides for the application of the arm's length principle with respect to Luxembourg entities that principally conduct intra-group financing transactions. In addition, the circular also defines, among other things, an arm's length remuneration regarding intra-group financing activities and an appropriate level of Luxembourg substance for such activities. In general, particular attention is given to transfer pricing documentation. Documentation requirement Yes.
Thin capitalization rules	A debt-to-equity ratio of 85:15 is applicable to the funding of participations or real estate located in Luxembourg; interest free loans may qualify as capital for debt/equity ratio purposes.
General Anti-Avoidance rules (GAAR)	General abuse of law principle.
Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions	Yes, with effect as of January 1, 2016, an anti-hybrid rule and a general anti-abuse rule have been included in the domestic participation exemption regime for profit distributions derived from participations falling within the scope of the EU Parent-Subsidiary directive.
Advance Ruling system	Yes
IP / R&D incentives	The IP regime granting an 80 percent exemption on royalties and capital gains with regard to certain intellectual properties will be repealed as of July 1, 2016 (with grandfathering rules). Certain tax incentives are in place for R&D and innovation. Luxembourg is a popular location for investment and private equity funds, headquarters, holding companies, financing companies, and securitization vehicles.
Other incentives	Investment tax credits - Favorable tax regime for expatriates.

VAT

Definitions of economic activity and taxable persons for VAT purposes in Luxembourg:

“Taxable person” is any person who independently carries on an economic activity.

“Economic activities” encompasses all activities of producers, traders and persons supplying services, including the exploitation of tangible or intangible property for the purpose of deriving income therefrom on a continuing basis.

Only payments which are the consideration for a transaction or an economic activity fall within the scope of VAT and this is not the case if these arise simply from ownership of the asset (e.g. dividends).

Obligation to register for VAT purposes in Luxembourg:

Taxable persons that perform supplies entitling them to recover Luxembourg input VAT incurred on costs are in principle required to register for VAT purposes in Luxembourg (i.e. under the standard procedure), theoretically within two weeks after the starting date of these activities.

Where a taxable person is not entitled to recover any Luxembourg input VAT, this taxable person should not, in principle, be required to register for VAT purposes in Luxembourg under the standard procedure.

However, a taxable person with no right to recover Luxembourg input VAT must register for VAT purposes in Luxembourg under the simplified procedure if they are liable to self-account for, declare and pay Luxembourg VAT (i.e. the reverse-charge mechanism) on non-VAT exempt services (i.e. legal, accounting, advisory services) or if they acquire intra-community goods for an annual amount (VAT excluded) above 10,000 EUR.

The filing frequency of Luxembourg VAT returns depends on turnover.

If turnover is < EUR 112,000.01: the Luxembourg VAT authorities only require an annual VAT return to be filed;

If turnover is between EUR 112,000.01 and 620,000: periodic VAT returns (quarterly) and an annual VAT return must be filed;

If turnover is > EUR 620,000: periodic VAT returns (monthly) and an annual VAT return must be filed.

However, based on the Grand Ducal Decree of April 2013, the above filing requirements might be subject to change depending on the amount of intra-Community acquisitions of goods and non-VAT exempt services received from foreign suppliers subject to the reverse-charge mechanism. Should this amount exceed EUR 112k or EUR 620k per year respectively, the VAT authorities might require the filing of VAT returns on a quarterly or monthly basis respectively (in addition to the annual VAT return).

	VAT rates in Luxembourg: The standard VAT rate is 17 percent, the intermediary rate is 14 percent, the reduced rate is 8 percent and the super-reduced rate is 3 percent.
Other relevant points of attention	No

Source: Luxembourg tax law and local tax administration guidelines, updated 2016.

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