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HOWDEN
From exposure to certainty
Navigating European tax risk in alternative investments
30

Market data, deal certainty and governance implications

Tax risk has become a defining feature of cross-border alternative investment structures.

Drawing on three KPMG Luxembourg surveys — the Alternative Investments Substance Survey, the Global Industry Survey: Asset Management Transfer Pricing and the Large-scale ManCo and AIFM Survey — along with Howden's tax risk insurance underwriting experience, this joint white paper sets out what the market is reporting, how asset managers are affected in practice and how tax risk insurance has become part of the response.



Executive summary

Tax risk in European alternative investments has become systemic.

According to the three KPMG surveys underpinning this paper, while tax audit activity is not escalating it is nonetheless high, stable and increasingly consequential, with 43 percent of managers having faced a direct foreign tax audit in 2025. Transfer pricing audits take 1.3 years on average to resolve and over 9 percent of them involve criminal proceedings. Scrutiny concentrates on beneficial ownership, substance, transfer pricing and withholding tax. It is led by a handful of source jurisdictions and continues to be conducted strictly on a case-by-case basis, despite attempts at harmonization.

For managers, the consequences are practical.

Tax risk consumes deal time, capital and management attention, centers on financing and the management value chain, and ultimately impacts Luxembourg operating models.

Documentation appears to be essential but does not, on its own, suffice as protection: what matters is the consistency between what is documented and what actually happens.

Tax risk insurance transfers identified residual exposures while delivering execution certainty within deal timelines where advance rulings can often no longer do so, and complements rather than replaces robust analysis, substance and governance.

Lastly, for Luxembourg AIFMs, tax risk now sits within the scope of governance. Accountability for the tax function is locally based, with a dedicated local officer in 55 percent of cases, while execution is leveraged across the wider group and external advisers. Oversight remains at home, and demonstrable oversight is becoming part of what it means to run a credible Luxembourg alternative investments platform.

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1

The European tax risk landscape: what the market is reporting

1.1 Tax risk in alternative investments is now systematic rather than episodic

Our data does not point to a sudden surge in audit and inquiry volume. Rather, it indicates a high and stable level of scrutiny that has concentrated on a small number of technical tension points and that now involves materially higher stakes.

An exposure that was once primarily transactional — arising at entry or exit and bounded by a limitation period — now appears to accumulate across the life of a fund, at both platform and asset level, and to be focused on how the structure is configured and maintained over time rather than on the execution of a given transaction.

The findings here are drawn from three KPMG and KPMG Luxembourg surveys:

- the 2025 Alternative Investments Substance Survey ("the Substance Survey"), which covers 48 Luxembourg alternative investment managers, evenly weighted across US, UK and EU sponsors, with 96 percent using Luxembourg AIFs, 58 percent operating an in-house AIFM, and more than a thousand employees represented

- the Global Industry Survey: Asset Management Transfer Pricing ("the TP Survey") published in 2026, which covers 58 asset management firms with over USD37 trillion of assets under management across EMEA, the Americas and APAC, and gives a market view on European tax audit trends and transfer pricing, particularly from an alternative investments tax risk perspective

- the KPMG Large-Scale ManCo and AIFM Survey 2026 ("the AIFM Survey"), which examines the operating models and governance of Luxembourg management companies, including how the tax function is organized, performed and overseen at the level of the AIFM itself.

On frequency, the Substance Survey reports 43 percent of recurring respondents being subject to a direct foreign tax challenge in 2025 (virtually unchanged from 2024), while in the TP Survey more than 40 percent of all respondents had faced a transfer pricing audit over the past five years, with that volume rising to 68 percent in the case of standalone asset managers and 83 percent for asset managers managing real estate assets.

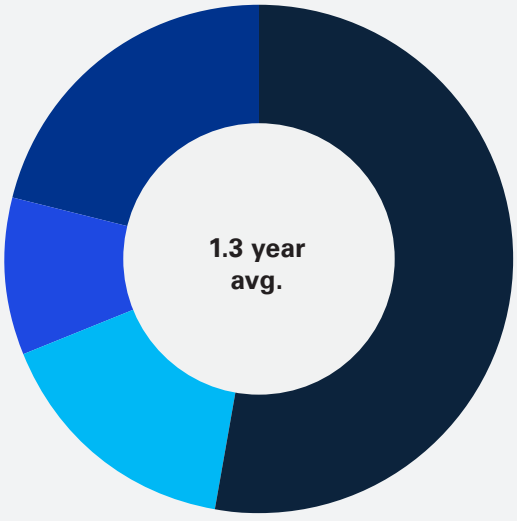
In other words, audit volume is steady but exposure is broad, and experiencing an audit is demanding, as the duration data shows. While the majority of transfer pricing audits close within a year, more than a fifth run beyond two years, and the average resolution takes 1.3 years.

This relatively long duration conveys something of the pressure such audits put on asset managers and the consequent appetite of the latter to close matters off as soon as feasible. It is certainly an unnecessary distraction to the business.

Even more striking, over 9 percent of transfer pricing audits involved criminal proceedings being brought against the asset manager, which moves the exposure from being a purely financial one into reputational and personal liability territory.

More broadly, for any tax investigation a fund manager may face, the vast majority would prefer to settle with the tax administration concerned in order to end the pre-audit or audit process as soon as possible, for multiple business reasons (cash repatriation, fund liquidity issues, partial exit, exit, dividend recapitalization, etc.).

Figure 1. **Transfer pricing audits: duration and time to resolution**



Source: KPMG Global Industry Survey: Asset Management Transfer Pricing 2026

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1.2 The scrutiny has also shifted regarding the subject matter

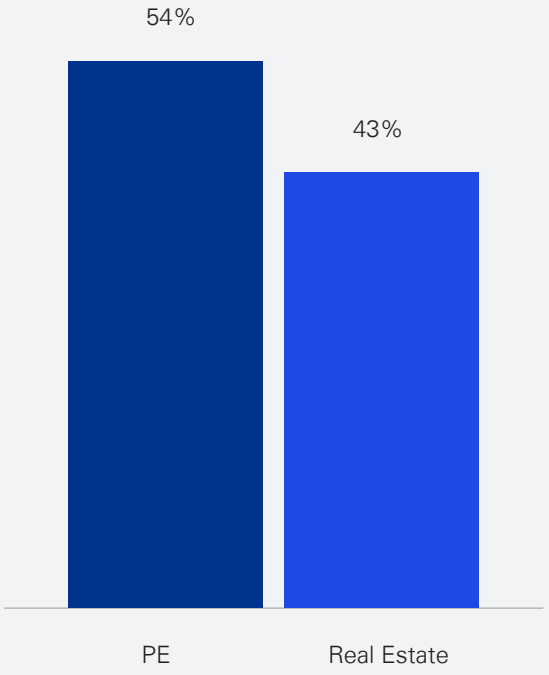
In the Substance Survey, beneficial ownership and substance is now the single most audited topic at 25 percent, ahead of transfer pricing and withholding tax at 19 percent each.

This is the practical face of the anti-abuse framework that source jurisdictions now apply as a matter of routine, from the principal purpose test embedded in treaties (through the OECD's Multilateral Instrument) to the beneficial ownership standards articulated by the Court of Justice of the European Union in the 2019 Danish cases.[1] The TP Survey identifies the same tension points from a different angle, listing the recurring points of contention as: intellectual property (IP) migration, shareholder loans and financing, transfer pricing and tax substance, profit allocation, and "offshore" activities.

The throughline is consistent: authorities are looking through form to substance, asking whether a structure is real and whether profit sits where value is created.

Additionally, the exposure is not uniform across strategies. As Figure 2 shows, private equity (PE) and real estate were found to be the two most audited strategies across the EU in the Substance Survey. The pattern is not exclusive, however: we have seen many instances where credit funds were at stake, notably regarding beneficial ownership or the characterization of certain returns or payments.

Figure 2. Most-scrutinized strategies



Source: KPMG 2025 Luxembourg Alternative Investments Substance Survey

[1] Joined cases C-115/16, C-116/16, C-117/16, C-118/16, C-119/16, and C-299/16 of 26 February 2019.

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1.3 Enforcement is also markedly inconsistent across jurisdictions, which makes a single European view of risk difficult despite the harmonized framework

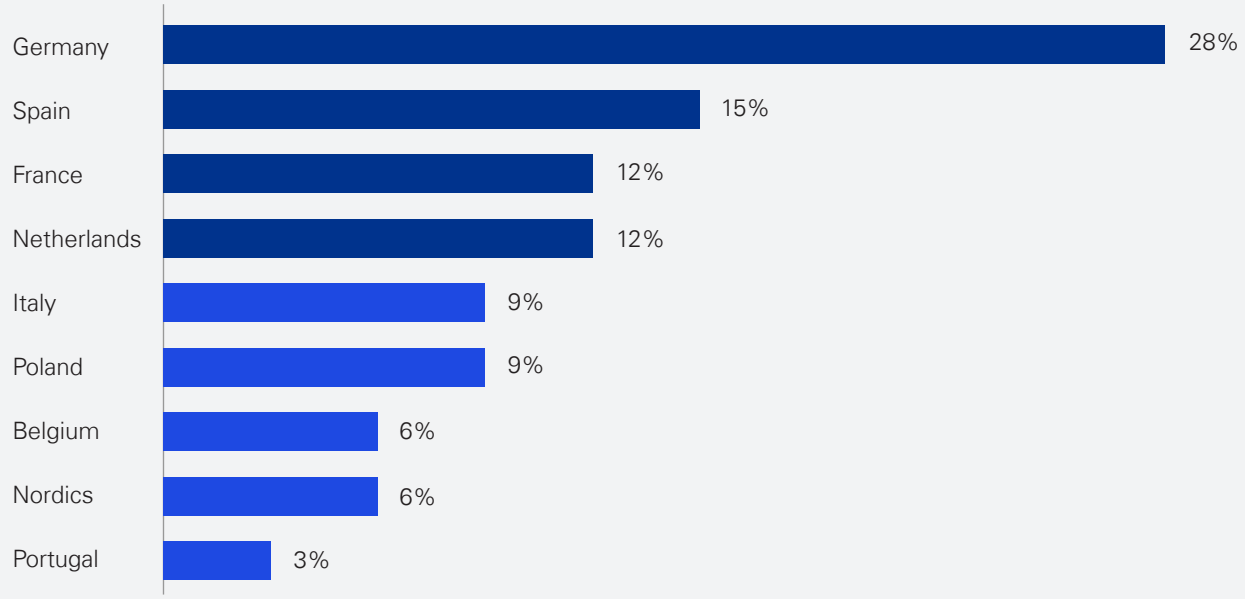
Germany dominates as the jurisdiction instigating the most audits in both surveys, accounting for 28 percent of audits in the Substance Survey and 33 percent in the TP Survey. Spain, France and the Netherlands follow, with Italy, Poland, Belgium and the Nordics next.

For managers that run structures across the principal capital corridors, the data could be read as arguing for corridor-specific risk assessment. However, this logic would be flawed. Audit frequency is a lagging indicator: it tells you where authorities have already acted, not where exposure currently sits. More fundamentally, modern fund structures are, by design, cross-jurisdictional, and risk follows the same logic: it does not stop at the border where the audit opens.

Interestingly, there have been several attempts to harmonize or rationalize how tax authorities should test substance and double taxation treaty entitlement.
For example, the OECD tried (without success) to provide guidance on how the principal purpose test should be applied, in its "BEPS Action 6 — discussion draft on non-CIV" paper released in 2017 (which was not conclusive or binding), and the European Commission set out some sort of minimum substance standards that should be applied across the EU in its draft Unshell Directive ("ATAD 3", now officially abandoned).

This all therefore means that tax audits remain very much a case-by-case and jurisdiction-driven matter.

Figure 3. **Direct foreign tax audits by source jurisdiction**



Source: KPMG 2025 Luxembourg Alternative Investments Substance Survey

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1.4 Documentation and governance have become the primary responses

On the corporate side, more than 75 percent of TP Survey respondents operate cross-border portfolio management arrangements, more than 50 percent of capital-raising teams are cross-border and 82 percent of respondents centralize back office and similar support activities. At fund level, half of asset managers use intercompany debt to finance acquisitions and portfolio companies.

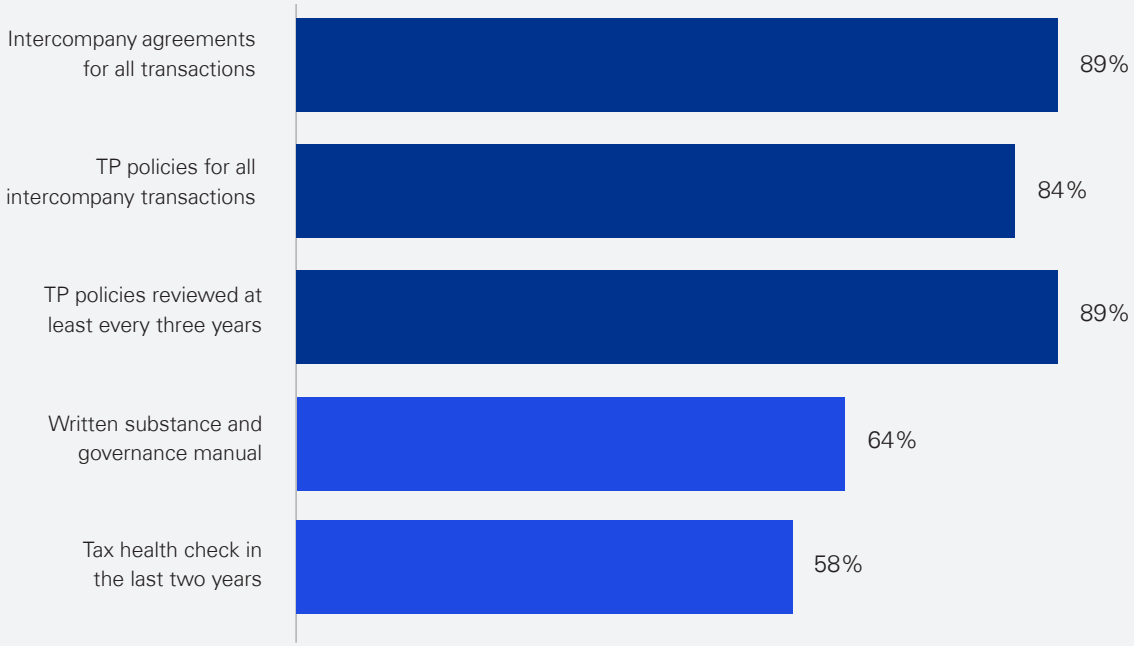
In other words, asset managers inherently have a cross-border footprint.

Those cross-border models, with high-value functions spread across different countries, have led to an increasing use of profit splits or fee splits, which have come under the scrutiny of tax administrations. The latter are not only focusing on the method itself (be it a profit split or a cost-plus basis) but are also assessing whether the splits and markups themselves are at arm's length, with a focus on the consistency and detail in the data used in taxpayers' financial models. Financing transactions are also one of the dominant triggers, with more than 45 percent of transfer pricing audits being related to such transactions, both debt capacity and interest rates being of interest to local tax administrations.

In this context, documentation has become essential: this is why, according to our TP Survey, 89 percent of asset managers have intercompany agreements in place for all intercompany transactions, while 84 percent maintain general transfer pricing policies. In 89 percent of the latter cases, these policies are reviewed at least every three years.

The Substance Survey also highlights the importance of formal tax governance: 64 percent of respondents have documented tax substance and governance arrangements in a written manual and 58 percent have run a tax health check in the last two years. The outcomes of these health checks could result in respondents upgrading their board composition, improving their decision-making processes or adapting their structure in response to new tax regulations.

Figure 4. **Documentation and governance formalization**



Sources: KPMG Global Industry Survey: Asset Management Transfer Pricing 2026; KPMG 2025 Luxembourg Alternative Investments Substance Survey

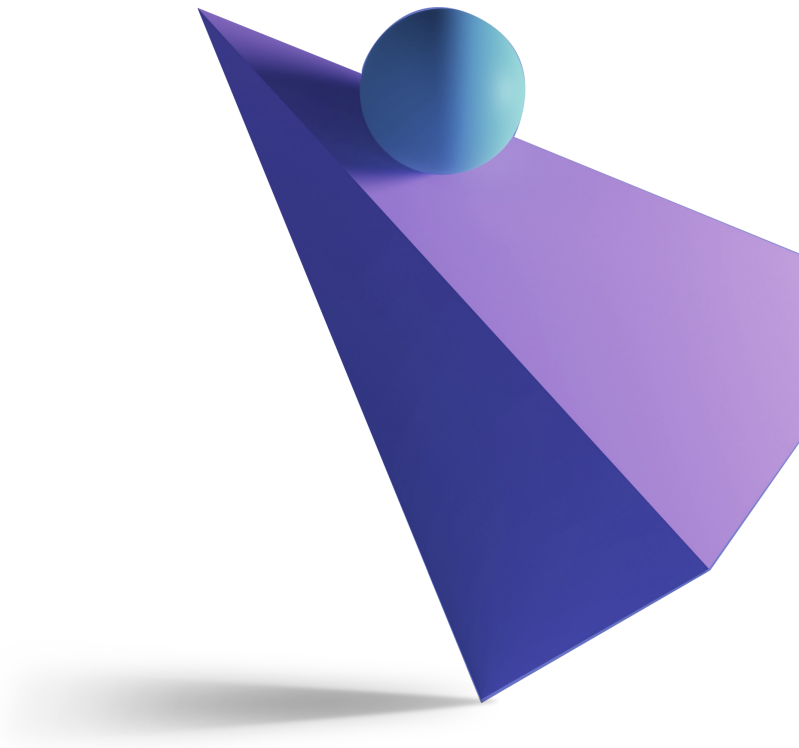
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Documentation alone, however, is not a shield from any tax audits.

Every asset manager in the TP Survey that had faced criminal proceedings had full policies in place, full documentation across all group entities, a complex fee structure and a recent business restructuring. This suggests that the real exposure lies in the consistency between what is documented and what actually happens, not in the existence of the documentation.

Managers generally remain reasonably confident, rating their own substance at 4.2 out of 5 on average, consistent with the prior year, and most consider their model strong enough, particularly those with an internal AIFM. The takeaway for asset managers is therefore not one of a need for caution but rather a clarification.

Overall, what asset managers report about their own experience is that scrutiny: is high but stable in volume; is focused on substance, beneficial ownership and transfer pricing; varies by jurisdiction; is often slow; and sometimes involves criminal proceedings.



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The practical implications for alternative asset managers

Section 1 sets out what tax authorities are doing. This section turns to what that behavior means inside an asset manager: what it costs in deal terms; which everyday intercompany flows carry the exposure; and why the way Luxembourg alternative asset platforms are staffed and operated determines how well that exposure is absorbed.

2.1 Tax risk may now cost managers deal time, capital and management attention

The effects of tax authorities' actions are tangible and are experienced unevenly across the platform:

- Audits are longer and with higher stakes. Most transfer pricing audits eventually settle, with more than 60 percent resolved by agreement, but the tail is long and the average case absorbs management time for well over a year.

- Contested positions also tie up capital. They drive escrow, reserves and provisioning under the accounting framework for uncertain tax treatments, they delay distributions to investors and, in several source jurisdictions, a disputed liability must be prefinanced or settled before it can even be litigated.

Tax risk has consequently become an element in structuring, and a gating item in transactions, particularly at exit, when capital is being returned and contested positions surface at the least convenient moment.

Asset managers are now well aware of and adapted to this new environment.

2.2 The operating model amplifies the potential exposure: limited tax resources overseeing a growing structure

The structural arithmetic compounds the challenge that asset managers may face in practice.

The reason staffing and outsourcing belong in a discussion of audit impact is simple: every enquiry described above ultimately lands on the Luxembourg team, and tax authorities increasingly test whether that team can genuinely take and review the decisions the documentation prescribes.

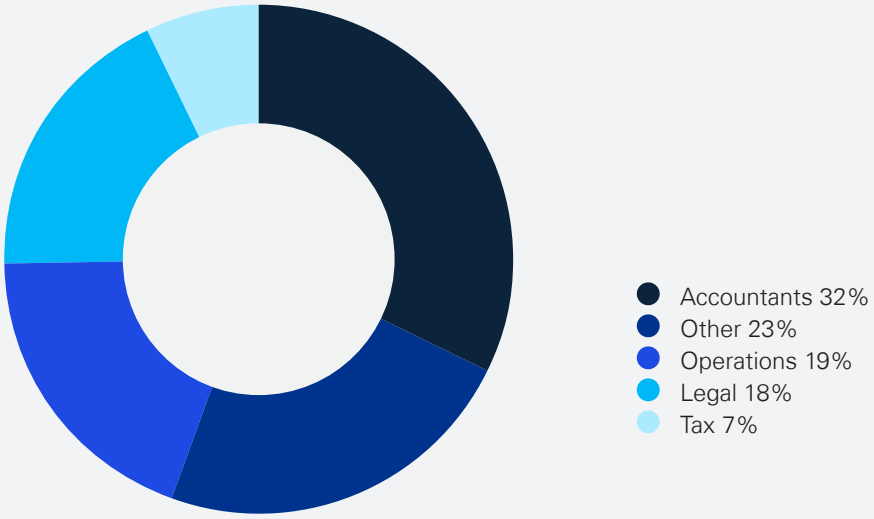
The typical Luxembourg platform in our 2024 survey now runs (in our 2025 survey) an average of 114 SPVs, with a median of 55, up 5 percent compared to 2024, while the average asset manager employs around 22 people in Luxembourg, of whom around 12 would be partially assigned or fully dedicated to the SPV structure (through certain legal arrangements).

The composition of that "SPV team" matters as much as its size. Accountants make up 32 percent of SPV staff, operations staff 19 percent and legal 18 percent, while tax personnel account for just 7 percent.

A potentially thinly resourced internal tax function, sitting above a large and growing population of entities, is itself a point of audit pressure because it tests whether decisions are genuinely taken and reviewed where they are documented to be taken. However, in practice, most of the players surveyed rely on the wider support of a tax team located in a different jurisdiction, with Luxembourg retaining the oversight. The full substance picture also needs to account for AIFM staff who, while not necessarily sitting within the SPV itself, are typically more senior and add further robustness to the structure.

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Figure 5. **Functions performed by SPV staff (excluding the AIFM)**



Source: KPMG 2025 Luxembourg Alternative Investments Substance Survey

The use of outsourcing adds a further dimension to the above discussion.

The level of outsourcing rises with the size of the manager, reaching 88 percent for the largest, and tax compliance is the single most fully outsourced task. This is efficient, but it concentrates oversight risk: the more execution sits outside the regulated entity, the more the manager must be able to demonstrate that it still directs and controls the work. Notably, 71 percent of participants are actively working on cost and efficiency optimization following recent transaction challenges.

Nor should a team of around 22 people (the average sponsor's Luxembourg team size, as mentioned above) be read as small in context. Alternative asset managers run lean organizations globally, and a Luxembourg office of this size frequently represents a material share of the group's total headcount.

Headcount and outsourcing ratios are, in any event, only part of the substance picture. What increasingly matters is the seniority of the people involved and the functions they actually perform.

This is where the AIFM changes the equation: under CSSF Circular 18/698, a Luxembourg AIFM must perform a set of regulated functions locally - from portfolio and risk management to valuation, compliance and the oversight of delegates - and that mandatory footprint brings a qualitative substance that staff headcount alone cannot convey. It is one reason why managers with an in-house AIFM rate their own substance materially higher in the Substance Survey.

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3



Tax insurance as a strategic risk-transfer tool

As tax uncertainty is increasing both globally and across European jurisdictions, we are seeing an increased number of taxpayers, including alternative asset managers, turning to tax and contingent risk insurance policies as a pragmatic solution for managing identified commercial, legal and tax risks and preserving deal certainty.

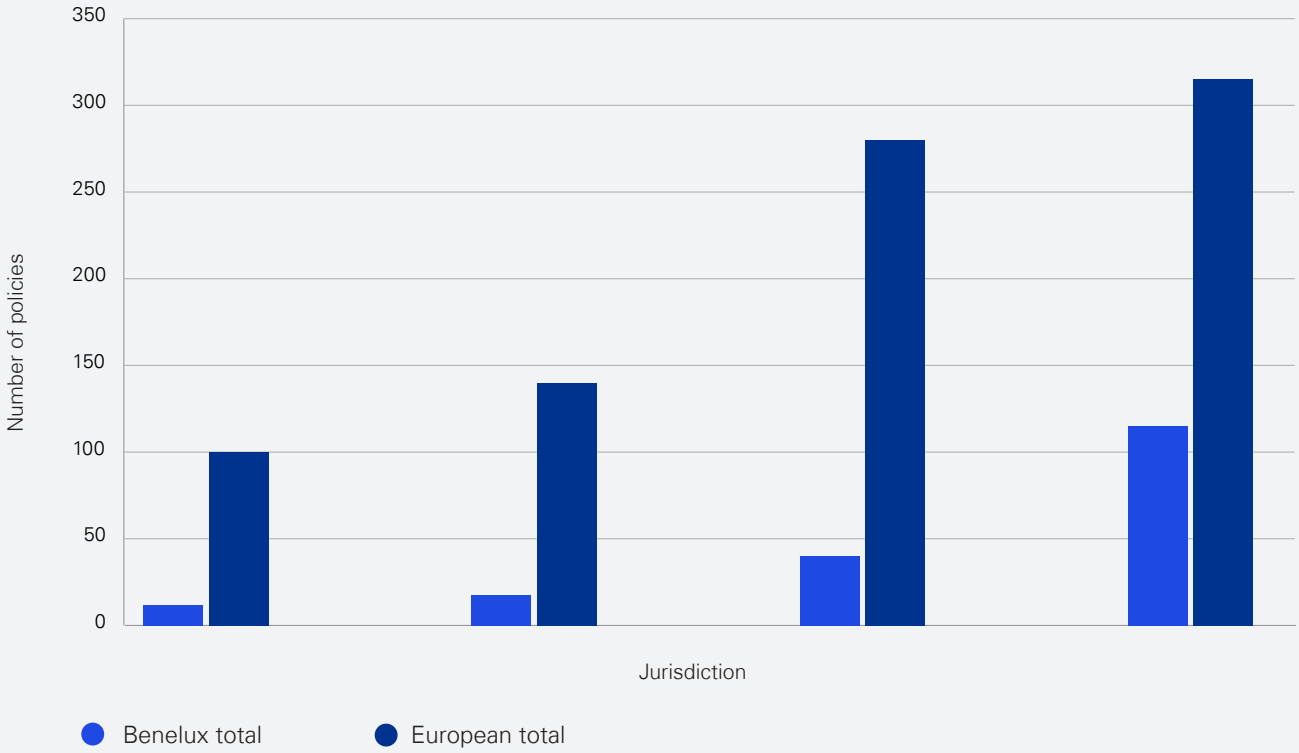
Originally developed as a niche product within mergers and acquisitions (M&A) transactions, tax risk insurance has evolved rapidly over the past decade into what is today a mainstream tool used across a broad range of scenarios, sectors and jurisdictions.

This continued growth has mainly been driven by two converging factors: the expansion and complexity of tax rules and the widening gap between legal interpretation and enforcement outcomes, not least because governments nowadays are more actively pursuing revenue mobilization and fiscal optimization to meet rising structural expenditures and debt obligations. As a result, even well-considered and well-supported tax positions can carry material uncertainty.

At its core, tax insurance enables the transfer of financial exposure arising from a tax authority challenge — including tax, interest, penalties and associated costs — from the insured to the insurer, thereby providing certainty in situations where the technical position may be robust but is not risk-free.

The increased use of tax risk insurance can be illustrated by the growth data, both in absolute numbers of policies placed and in the total policy limit insured. The proportion of Benelux policies in the overall European statistics is also increasing.

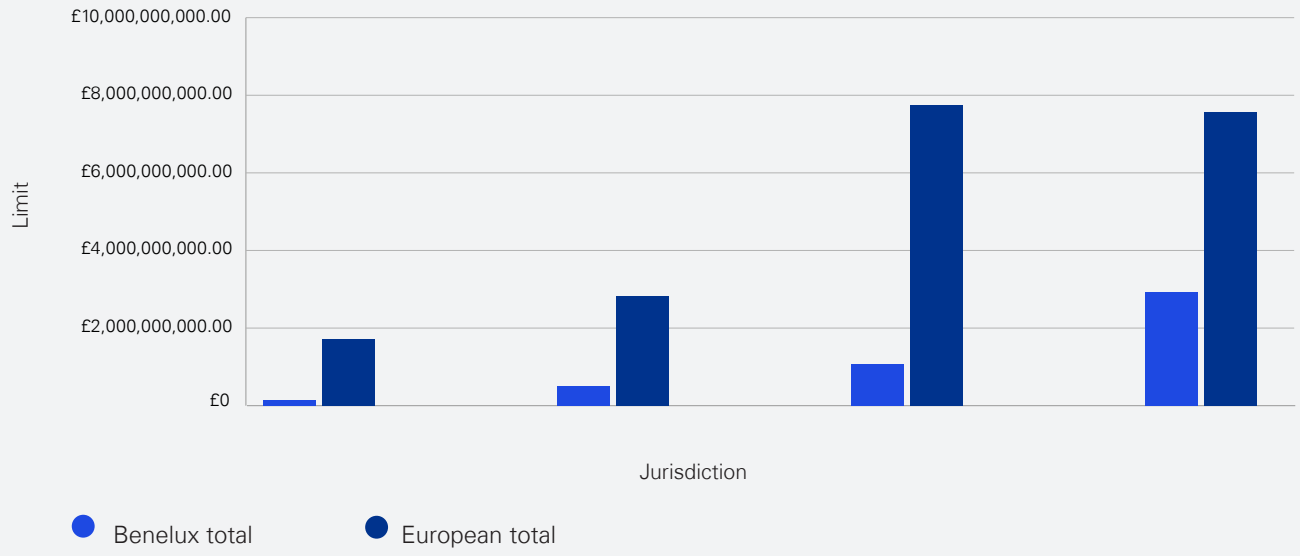
Figure 6. **Growth of tax policies placed (by number of policies) in Benelux compared to rest of Europe (2022-2025)**



Source: Howden

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Figure 7. **Growth of tax policies placed (by insured limit) in Benelux compared to rest of Europe (2022-2025)**



Source: Howden



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3.1 What is tax risk insurance and how does it differ from W&I insurance?

Tax risk insurance is a risk transfer solution designed to protect taxpayers and investors against the financial consequences of a tax authority successfully challenging a specific tax position, either historically or looking forward. It can sometimes even be used in cases of an ongoing audit or when a case is already in litigation (for example, to preserve the positive outcome of a lower court judgment in subsequent appeals proceedings).

Unlike broader transactional insurance products such as warranty and indemnity (W&I) insurance, tax insurance focuses on identified and analyzed risks. It is typically used in areas where the technical position is considered robust but not completely free from uncertainty. If the insured position is challenged and ultimately fails (or is effectively already challenged during an audit or pending court case), the policy will generally cover the resulting financial exposure, including the tax liability itself, interest, insurable penalties and associated defense costs. Policies typically also include a "gross-up" clause, which ensures that the insured is made whole on a post-tax basis.

This distinguishes tax insurance from W&I insurance, which covers unknown risks arising from breaches of warranties in transaction documents.

In practice, the two products are complementary: W&I addresses unforeseen issues, while tax insurance is used to ring-fence known exposures identified through due diligence. There is some overlap between W&I coverage and specific risk policies, as identified tax risks are typically addressed through standalone tax insurance policies, although in some cases they may also be affirmatively covered under a W&I policy for an additional premium, subject to underwriting and scope limitations.

Tax insurance can be structured on a buy-side or sell-side basis in transactional contexts, but its application is broader. Depending on the nature of the risk and the context in which the risk arises, the insured may be the target entity, a group company, a fund vehicle, another corporate or (depending on context and the relevant insurer pool) even individuals exposed to the relevant tax position.

3.2 From deal tool to strategic risk management solution

Historically, tax risk insurance was most commonly used in M&A and private equity transactions to address specific identified historical tax risks that could otherwise delay or derail a deal or funds flow.

Today, its application is significantly broader.

While it remains a powerful deal facilitation tool, tax and contingent risk insurance is increasingly deployed as part of a wider risk management framework. Asset managers are using tax insurance not only to resolve transaction-specific issues, but also to manage exposures arising from restructurings, cross-border financing arrangements and ongoing operational models. This shift reflects a more fundamental change in mindset, evidenced by the number of policies and areas of (tax) law in which policies are placed: tax insurance is no longer purely transactional, it is becoming structural.

A notable development in recent years has been the rise of forward-looking tax insurance. Rather than covering historical or existing risks, these policies are designed to protect the anticipated tax treatment of future events such as distributions, restructurings or disposals. This is particularly relevant in fund structures where long-term certainty over cash flows and returns is critical. By hedging against adverse changes in interpretation or enforcement, forward-looking policies can enhance predictability for investors.

One important application is in the context of fund wind-downs and liquidations, where residual tax or legal risks can otherwise delay distributions and force liquidators or general partners to retain significant escrow amounts or include clawback mechanisms for investors. By insuring residual exposures, funds can accelerate final distributions, reduce administrative friction and provide greater certainty to investors at the end of a fund's lifecycle.

At the same time, the market is evolving beyond traditional tax-specific coverage into broader contingent and structured risk solutions. Insurers are increasingly willing to underwrite risks linked to the recoverability, enforceability or valuation of assets and claims, including litigation-related outcomes, distressed or hard-to-value assets, and other complex contingent exposures. In practice, this can include solutions such as litigation funding insurance, insurance-backed enforcement risk

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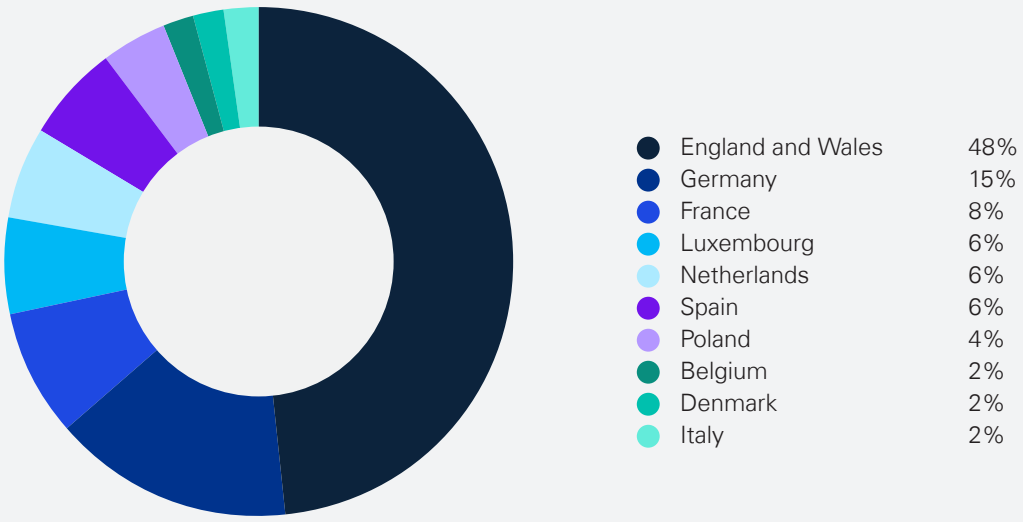
protection or structured policies designed to enhance the creditworthiness or monetization potential of uncertain assets.

Similarly, a further area where tax insurance is gaining traction is in situations where advance tax payments are required to pursue litigation or appeal a tax assessment. In Luxembourg, as in a number of jurisdictions, taxpayers may be required to settle or prefinance a disputed tax liability before being able to proceed through the courts. This can create a significant liquidity burden and, in some cases, act as a deterrent to challenging an assessment. Tax insurance, often combined with structured financing solutions, can be used to mitigate this constraint, either by protecting the underlying exposure or by supporting the release or financing of advance payments. In doing so, it enables taxpayers to pursue legitimate challenges without tying up substantial capital, thereby improving both liquidity management and overall risk allocation.

For Luxembourg AIFMs and management companies (ManCos), the use of tax insurance also intersects with broader governance expectations. Regulators such as the CSSF increasingly expect firms to demonstrate a structured approach to risk identification, assessment and mitigation, including in relation to tax. In this context, tax risk insurance can form part of a suite of solutions for risk management, alongside legal advice, internal controls and documentation frameworks.

When we look at the statistics, the majority of notifications under tax and contingent risk (T&CR) insurance for the period 2020-2025 come, not surprisingly, from the UK, where the product has been long established. Even though tax insurance was introduced more recently in the Benelux region, notifications for Benelux represent 14 percent of all those made across Europe, with Luxembourg at 6 percent, on a par with countries like the Netherlands and Spain.

Figure 8. **T&CR notifications made per European jurisdiction as a percentage of overall European notifications (2022-2025)**



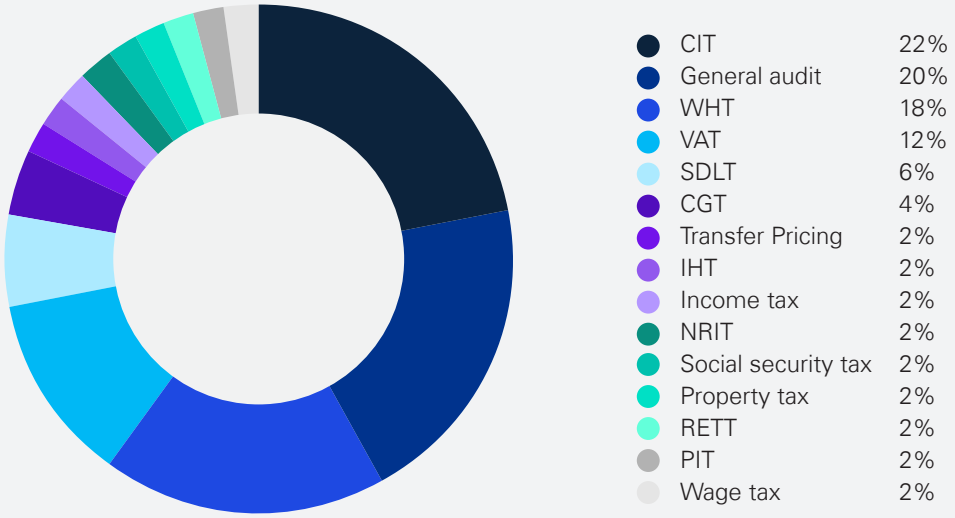
Source: Howden

Regarding the types of incidents notified, the majority are accounted for by corporate income tax (CIT) (22 percent), general audit (20 percent) and withholding tax (18 percent) incidents.

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Figure 9. **Notifications made per type of incident as a percentage of overall European notifications (2022-2025)**

All issues notified under Tax policies
Notifications made between 01/01/2020 and 31/12/2025



Source: Howden

3.3 Enabling execution in a more uncertain environment

The rising use of tax risk insurance is also being seen in Luxembourg. While many of the broader European trends apply equally here, the Luxembourg context introduces a number of specific dynamics that are shaping how tax risk is assessed, managed and, ultimately, transferred. These specific dynamics include the following.

A shift in the role of tax certainty mechanisms

Historically, Luxembourg offered a relatively predictable environment in which advance tax rulings were widely used to obtain legal certainty on complex structures. While rulings remain available, their use has become highly selective in recent years.

Several factors have contributed to this shift, such as a more formalized ruling process, timelines that are less compatible with transaction-driven environments, and a greater focus on international standards. Consequently, market participants are increasingly exploring alternative ways to achieve certainty, particularly in situations where timing, confidentiality or cross-border complexity make rulings less straightforward. In this context, tax insurance can provide a complementary route to managing tax uncertainty within transaction timelines, particularly where a ruling is not available, is unlikely to provide sufficient certainty, or cannot be obtained within the required timeframe.

Compared to traditional solutions such as tax authority rulings, insurance offers a significant timing benefit. Policies can typically be arranged within a matter of weeks, making them compatible with the pace of modern deal execution, whereas rulings are often impractical within transaction timelines. Moreover, tax insurance policies can provide a single solution to multi-jurisdictional risks, rather than obtaining a ruling from multiple tax authorities.

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It is also worth noting that, typically within a matter of days, taxpayers can obtain a preliminary view of insurance market appetite, indicative pricing and key policy terms, usually at no extra cost and based on the available documentation and technical analysis.

Insurance brokers such as Howden invest significant time in this pre-underwriting phase, enabling clients to assess insurability and pricing early on in the process. This approach also allows for the proactive negotiation of specific policy terms where there is competition among a selected group of insurers, rather than at a later stage when underwriting is more advanced and flexibility may be reduced.

A more assertive and professionalized tax authority

At the same time, Luxembourg tax administration has evolved significantly in recent years. There has been a clear trend toward greater professionalization, including increased resourcing and the recruitment of experienced professionals from private practice and advisory firms.

According to tax professionals and other participants in the Luxembourg market, such a shift is reflected in a more structured and technically rigorous approach to audits and enquiries. While Luxembourg remains a cooperative and pragmatic jurisdiction, the level of scrutiny, particularly in cross-border contexts, has increased, and positions that were historically considered low risk may now be subject to more detailed review.

For asset managers, this reinforces the need to assess tax risk not only based on legislation, but also with regard to enforcement behavior. In certain cases, tax insurance provides a way to manage that residual uncertainty, notably where the technical analysis is strong but outcomes cannot be guaranteed.

Decision-making is evolving structurally

One of the most notable recent developments in Luxembourg has been the continued strengthening of local operational presence and governance. While Luxembourg has long been an established hub for alternative investment structures, asset managers have progressively expanded their on-the-ground capabilities, with larger teams, more formalized governance frameworks and a greater concentration of key decision-making within Luxembourg-based entities.

This evolution reflects both regulatory expectations and investor scrutiny, and has further reinforced the credibility and resilience of Luxembourg platforms in cross-border structures. One of the most notable developments in Luxembourg over the past decade has been the significant increase in local substance.

However, this evolution does not eliminate tax risk. Instead, it often shifts the focus of scrutiny from purely formal considerations to the consistency between documented processes and actual behavior.

In this environment, tax insurance can play a targeted role in ring-fencing specific residual risks, even within otherwise well-substantiated structures.

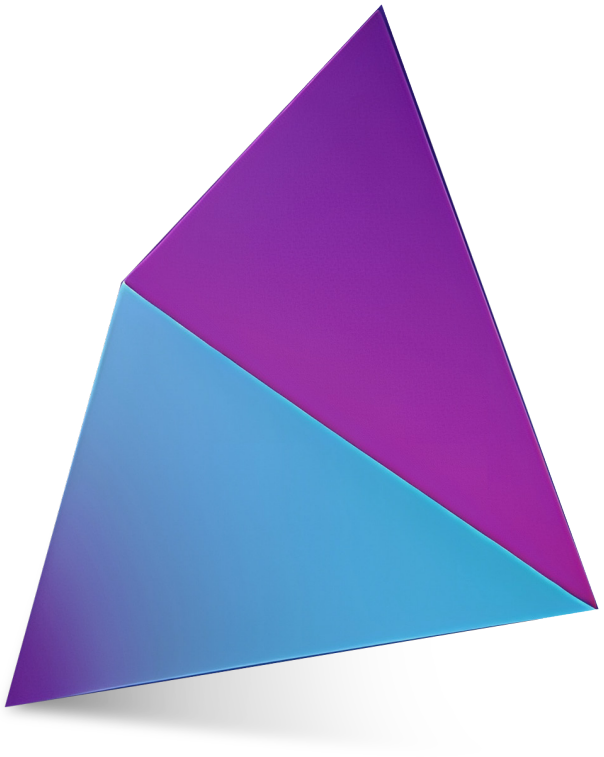
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3.4 Scope of risks covered

The range of risks that can be insured has expanded in line with market demand and underwriting sophistication.

In the European alternative investment context, common use cases include:

- withholding-tax risks on cross-border payments, including dividends, interest and royalties, particularly where treaty access, EU directive eligibility, beneficial ownership or operational presence may be challenged
- permanent establishment risk, especially in relation to asset management and operating models
- transfer pricing risks, including the allocation of functions, assets and risks within management and financing structures
- hybrid instruments and cross-border mismatches, including classification issues across jurisdictions
- tax attributes and structural positions, such as the availability and utilization of carried-forward tax losses
- financing and intragroup arrangements, including cross-border lending and cash flow structuring
- reorganizations and platform changes, including restructurings, migrations and the establishment or reorganization of holding and financing structures
- exit and legacy risks, especially in source jurisdictions and in the context of disposals or distributions.



Recent case law developments, particularly in relation to beneficial ownership, have accelerated demand for tax insurance as asset managers seek protection against evolving interpretations by tax authorities.

A similar dynamic can be seen in Luxembourg, for example with the renewed scrutiny of share premium distributions, an area historically viewed as well-established but now subject to more nuanced analysis.

This all highlights how tax risk is constantly evolving: positions or jurisdictions once considered standard are increasingly being revisited, thus driving demand for insurance solutions to manage newly emerging or re-characterized risks.

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3.5 Underwriting discipline and market evolution

The growth of the tax insurance market has been accompanied by a notable increase in underwriting discipline. Insurers now undertake detailed technical reviews of the underlying tax position, often relying on external legal opinions and requiring comprehensive documentation. This process closely mirrors the scrutiny applied by tax authorities themselves. As a result, the act of placing insurance can serve as a form of independent validation of the technical position.

Importantly, however, there is no fixed format or threshold for supporting advice.

While full-form legal opinions are sometimes used, underwriting can also be based on more targeted or concise advice. In the earlier stages of the underwriting process, it is also common to approach the market on the basis of extracts from tax due diligence reports or existing internal analysis, in order to assess insurability and indicative terms. This flexibility reflects the commercial nature of the market: the emphasis is on the strength and clarity of the technical position, rather than the formality of the documentation supporting it.

At the same time, increased competition among insurers has supported relatively stable pricing, typically expressed as a percentage of the insured limit and calibrated based on jurisdiction, risk profile and complexity.

As far as pricing is concerned, in Luxembourg, for example, pricing typically ranges between 1 percent and 5 percent of the insured limit for non-contentious and more commonly insured tax risks, with minimum total costs of insurance (including not only the premium, but also the insurance premium tax, underwriting fee and brokerage) starting at around EUR150,000.

3.6 A complement to governance, not a substitute for it

Despite its growing importance, it is critical to position tax insurance appropriately. It does not replace robust tax analysis, nor does it eliminate the need for strong governance and documentation.

Instead, tax insurance should be viewed as a complementary tool in risk management: one that enhances deal certainty, supports risk management and strengthens the defensibility of a position when used in conjunction with high-quality advice.

Indeed, the underwriting process itself reinforces best practices by requiring clarity, consistency and thorough documentation of the tax position.



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4



Governance and oversight: the Luxembourg AIFM perspective

The themes above converge on a single conclusion for regulated managers: tax risk now sits within the scope of governance. For a regulated manager this means tax risk is no longer only a technical matter for advisers — it is a risk category the board must identify, oversee and be able to evidence, in the same way as any other type of risk.

4.1 The substance tests that authorities apply are governance tests

The substance tests that tax authorities apply to establish where a structure is genuinely managed can effectively be viewed as governance criteria.

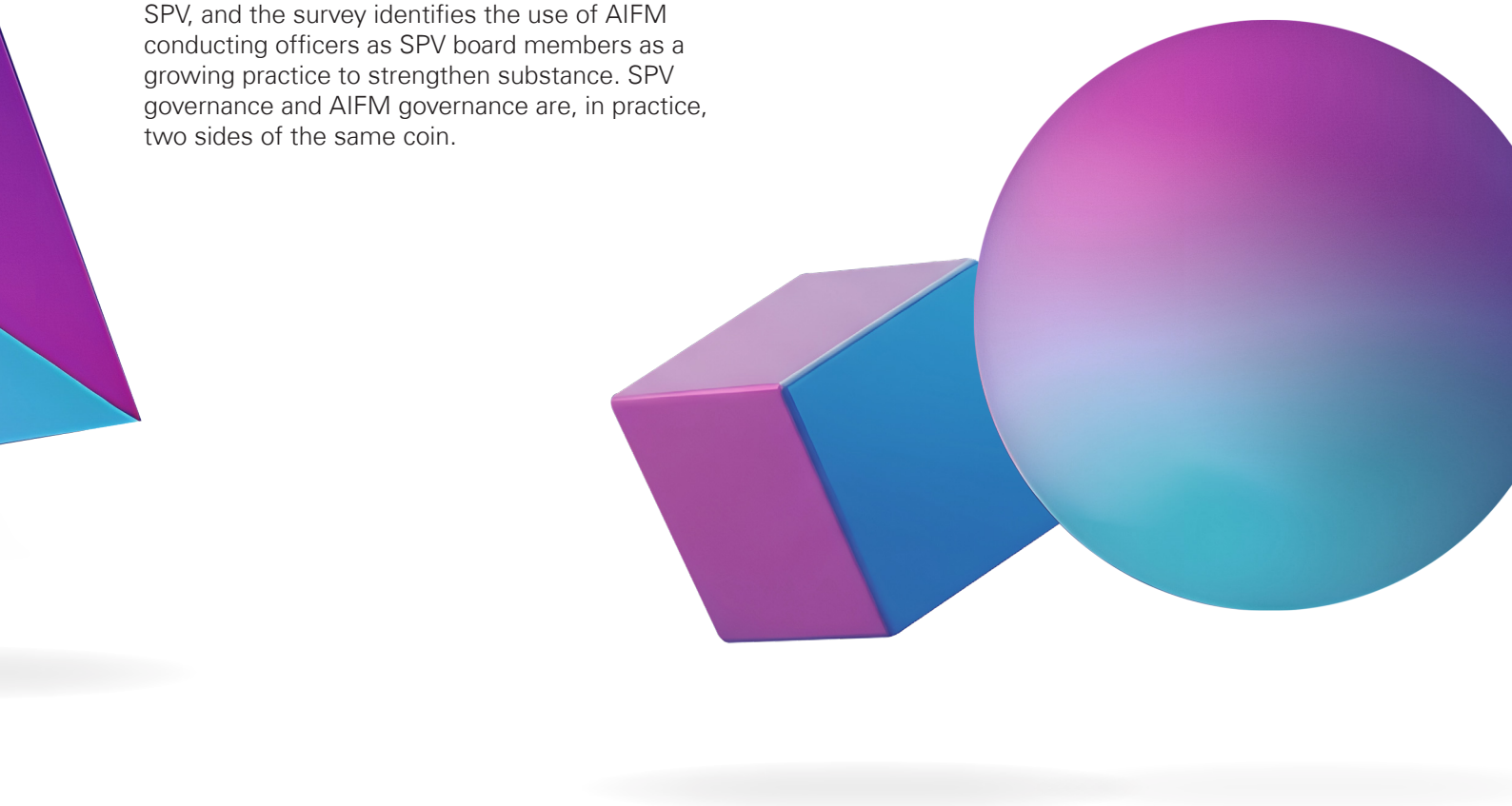
They are applied, in the first instance, at the level of the SPVs rather than of the AIFM itself. The link to the AIFM is nevertheless direct: half of the conducting officers in the Substance Survey also sit on the board of at least one Luxembourg SPV, and the survey identifies the use of AIFM conducting officers as SPV board members as a growing practice to strengthen substance. SPV governance and AIFM governance are, in practice, two sides of the same coin.

Based on the findings of the Substance Survey, when testing the place of effective management of an SPV, and therefore its tax residency, local authorities focus above all on the following: where board meetings are held, whether board members attend in person and whether directors are resident in the jurisdiction. They also weigh whether decision-making on significant functions is outsourced to third parties, whether directors have the skill and experience to carry out their duties credibly, and whether they exercise their functions independently of the owners.

Asset managers' practice broadly aligns with these expectations.

The typical platform runs boards of around four members at master holding level and three elsewhere in the chain. Some 71 percent of the managers sampled rely on independent directors and fewer than 20 percent use directors drawn from an asset servicer, reflecting a preference for genuine, accountable decision-makers over nominal presence.

The board, in short, is being treated as a substance and governance instrument, not an administrative formality.



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4.2 The AIFM as the cornerstone of qualitative substance

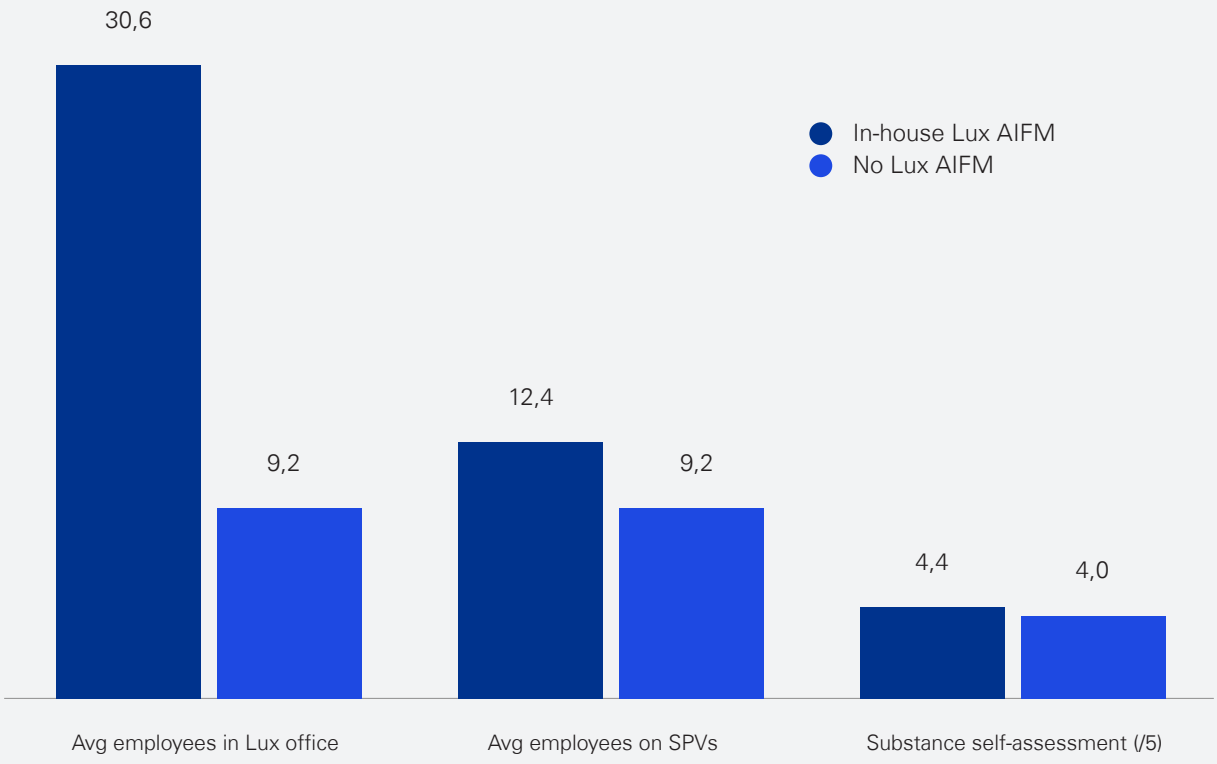
The AIFM has become the cornerstone of qualitative substance.

With 96 percent of managers in our Substance Survey using Luxembourg AIFs and 58 percent operating an internal AIFM, regulatory substance is being leveraged for tax. Within the internal AIFM population, 69 percent of AIFM employees also serve the SPVs, up from 59 percent in 2023.

The substance dividend is visible in the data: managers with an internal AIFM employ an average of 30.6 people in Luxembourg, against 9.2 for those without one; they dedicate more staff to the SPV structure; and they rate their own substance higher.

This is why so many managers describe the AIFM as the source of the qualitative substance that a headcount figure alone cannot convey.

Figure 10. **Substance dividend of an internal AIFM**



Source: KPMG 2025 Luxembourg Alternative Investments Substance Survey

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4.3 Oversight versus outsourcing: the real governance challenge

Tax is also becoming a matter of formal oversight rather than pure execution.

In the AIFM Survey, which examines management company operating models, we found that 55 percent of management companies surveyed had a model where tax is overseen from Luxembourg, whereas 24 percent of respondents delegate tax to the group and 17 percent to external advisers.

The main question is then who is accountable for the tax function. Respondents point to the conducting officers in 38 percent of cases and to a dedicated Luxembourg head of tax in a further 17 percent, so that in 55 percent of cases accountability sits with a dedicated local officer. The board and the CFO account for 13 percent of cases each and the group head of tax for a further 13 percent, while only 8 percent point in practice to an external adviser.

Performance is a different matter, and this is where the wider group comes in.

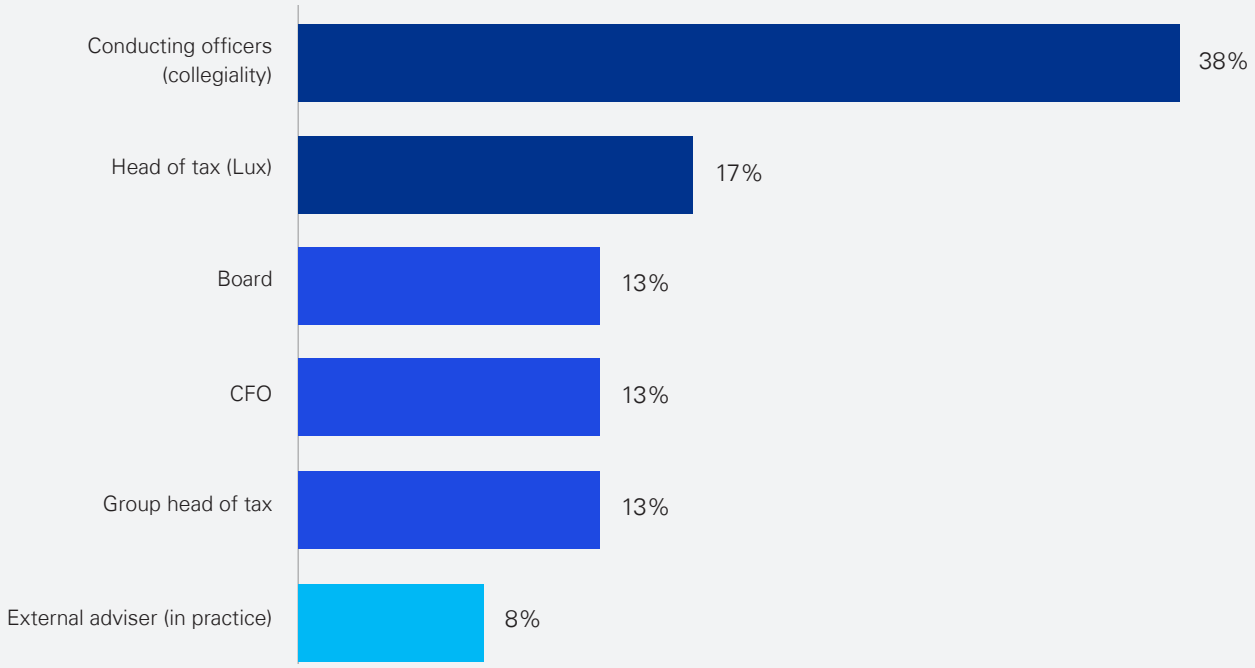
In other words, Luxembourg AIFMs leverage the wider group and external advisers for execution to different extents depending on the topic in question (structuring and optimization will generally be undertaken by the group tax team for 52 percent of respondents or by an external adviser for 35 percent), but accountability increasingly remains at home

Importantly, none of the asset managers we spoke with treated tax as a blind spot.

Whatever the operating model, from using a group tax team to employing a dedicated conducting officer, one finding stands out: nobody is looking away. Tax is firmly on the radar, actively owned and deliberately steered rather than left to drift as a compliance afterthought.

Given the compounding complexity of EU tax rules and an increasingly contentious tax environment, the above is more than reassuring. It points to an industry that has read the direction of travel and organized itself accordingly, before being forced to.

Figure 11. **The AIFM tax function: accountable locally, performed with the group**



Source: KPMG Large-Scale ManCo and AIFM Survey 2026

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Conclusion

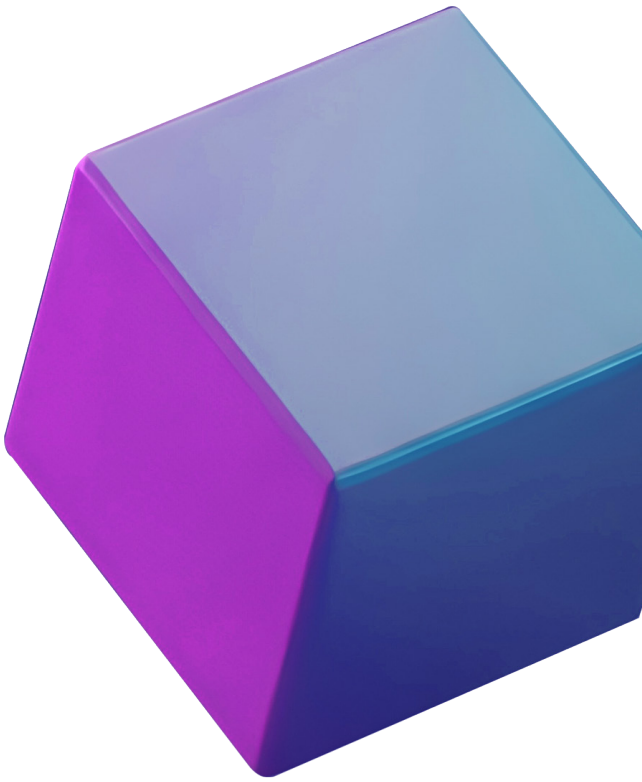
While tax audit activity in European alternative investments is high, it is stable in volume, but the stakes involved are increasing. Cross-border tax authority investigations focus on substance, beneficial ownership and transfer pricing, and vary markedly by source jurisdiction, with a handful of jurisdictions responsible for the majority of cases.

For Luxembourg operating models, documentation is essential in order to prove substance, ownership, etc, but it does not, on its own, suffice as protection: what matters is the consistency between what is documented and what actually happens in practice.

The response of alternative asset managers comprises a combination of rigorous analysis and genuine and demonstrable substance.

Increasingly, where residual risk remains, that response should also include the targeted transfer of the risk through tax risk insurance, which itself has evolved from being merely a transactional fix into a fully-fledged structural risk management tool.

In fact, the very act of placing insurance can serve as a form of independent validation of a manager's technical position.



How can we help

KPMG Luxembourg advises asset managers across the fund life cycle, from structuring, substance and transfer pricing through to audit defense.

Howden Specialty Luxembourg provides specialist tax and contingent risk insurance broking, early pre-underwriting assessment and access to a broad and comprehensive market of insurers.

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Contacts



Benjamin Toussaint
Head of Alternative Investments
KPMG Luxembourg
benjamin.toussaint@kpmg.lu



Sophie Boulanger
Head of Transfer Pricing
KPMG Luxembourg
sophie.boulanger@kpmg.lu



Marco Müth
Global Head of Financial Services Tax
KPMG International
mmueth@kpmg.com



Russell Gibson
EMEA Head of Asset Management Tax
KPMG in the UK
russell.gibson@kpmg.co.uk



Alan Picone
Head of Asset Management Consulting
KPMG Luxembourg
alan.picone@kpmg.lu



David Mussche
Head of Belgium and Luxembourg
Howden Tax & Contingent Risk insurance
david.mussche@howdengroup.com

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