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Luxembourg participation exemption 2026

Luxembourg's participation exemption regime[1] provides for an exemption from income, withholding and net wealth tax for qualifying investments held by qualifying entities.

- The exemption from **income tax** is extensive, covering dividends, capital gains and liquidation proceeds; it can be waived in certain cases.
- In addition, no **withholding tax** applies on dividend distributions if the conditions of the participation exemption are met.
- And participations qualifying for the participation exemption are exempt from **net wealth tax.**

Background

The domestic participation exemption regime was modified with effect from 1 January 2016, to comply with the amendments of July 2014[2] and January 2015[3] to the EU Parent-Subsidiary Directive[4] to introduce a general anti-abuse rule and an anti-hybrid rule.

The conditions that must be met to qualify for the exemptions are summarized on the following pages. In some cases, tax treaties may provide for more favorable conditions with respect to dividends and net wealth tax. Whether the exemptions apply to a particular set of circumstances must be determined on a case-by-case basis.

In addition, the Law of 20 December 2024 (Bill 8388) introduced the possibility for taxpayers to waive the exemption applicable to income arising from certain participations.

1. Articles 147 and 166 of the Luxembourg income tax law (LITL), paragraph 9 of the municipal business tax law (MBT) and paragraph 60 of the evaluation law of 16 October 1934 (BewG).
2. Council Directive 2014/86/EU.
3. Council Directive 2015/121/EU.
4. Council Directive 2011/96/EU.

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Income tax exemption

Tax exemption for dividends, capital gains and liquidation proceeds received

The Luxembourg recipient entity must be:

- a fully taxable resident collective entity with one of the legal forms listed in article 166 of the Luxembourg Income Tax Law (LITL) paragraph 10[5]; or
- a fully taxable resident corporation not listed in article 166 LITL paragraph 10[6]; or
- a Luxembourg permanent establishment of:
  - a collective entity that is covered by the Parent-Subsidiary Directive[7]; or
  - a corporation resident in a country with which Luxembourg has signed a tax treaty; or
  - a corporation or a co-operative company that is resident in an EEA country other than a member state of the European Union[8].

The subsidiary must be:

- a collective entity covered by the Parent-Subsidiary Directive[9]; or
- a fully taxable resident corporation not listed in article 166 LITL paragraph 10[10]; or
- a non-resident corporation fully subject to an income tax comparable to the Luxembourg corporate income tax. A minimum income tax rate of 8 percent (since 2025) generally satisfies this requirement as long as the taxable basis is determined according to rules and criteria similar to those applicable in Luxembourg.

The exemption also applies to participations held in a qualifying company through tax-transparent entities.

The minimum participation in the share capital that qualifies for the exemption is:

- a 10 percent participation; or
- an acquisition price of at least EUR1.2 million to qualify for the **dividend and liquidation proceeds exemption**; or
- an acquisition price of at least EUR6 million to qualify for the **capital gains exemption.**

According to the Luxembourg Supreme Court in direct tax matters, capital contributions into account 115 do not represent a holding in the share capital of the subsidiary[11] for the purposes of the above requirements.

Minimum holding period

The minimum participation must have been held for an uninterrupted period of at least 12 months on the date the income is allocated or realized for tax purposes.

A commitment to hold the minimum shareholding for an uninterrupted period of at least 12 months satisfies this condition. The test applies to the participation in general rather than on a share-by-share basis.

Deduction of expenses

Expenses directly related to a participation that qualifies for the exemption (e.g. interest expenses) are only deductible to the extent that they exceed exempt income arising from the relevant participation in a given year.

Other rules can limit the deduction of expenses linked to the qualifying participation (e.g. Luxembourg anti-hybrid and interest limitation rules[12]).

A write-down in value of a participation qualifying for the exemption is deductible, except if it results from tax exempt dividend distributions.

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5. These are basically entities with a legal form as covered by the Parent-Subsidiary Directive.
6. These are basically corporations set up in a non-European Union country, but tax resident in Luxembourg.
7. On 1 December 2020, the new Circular L.I.R. n° 147/2, 166/2 and Eval. n° 63 excluded companies incorporated in Gibraltar from the benefits of the Parent-Subsidiary Directive for the application of the participation exemption regime, starting 1 January 2021 as a result of the decision of the CJEU case (C-458/18) of 2 April 2020.
8. Luxembourg permanent establishment of a corporation or a co-operative company that is resident in Liechtenstein, Iceland or Norway.
9. See footnote 7
10. See footnote 6
11. Administrative Court, 31 March 2022, n°46067C: in this specific court case, the shareholder acquired less than 10 percent in the share capital of a Luxembourg subsidiary and made a subsequent contribution into the account 115. Although the EUR1.2 million threshold was reached on an aggregate basis, the Court considered that the minimum acquisition price was not met.
12. According to the Anti-Tax Avoidance Directives 1 and 2 as transposed into Luxembourg domestic laws (respectively Law of 21 December 2018 and Law of 20 December 2019).

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The exempt amount of a capital gain realized on a qualifying participation is, however, reduced by the amount of any expenses related to the participation, including a write-down in value, that have previously reduced the company's taxable income. This mechanism may be subject to specific adjustments in the case that the exemption waiver is applied.

If a parent company writes off part or all of a loan to its subsidiary, the value adjustment is treated in the same way as any write-down in value of the participation, i.e. the exempt part of the capital gain will also be reduced by the amount of loan write-off having previously reduced the company's taxable income.

General anti-abuse rule and anti-hybrid rule

These rules were introduced into Luxembourg domestic tax law in order to comply with the amendments of July 2014[13] and January 2015[14] to the Parent-Subsidiary Directive.

Profit distributions falling within the scope of the Parent-Subsidiary Directive are not tax exempt in Luxembourg where the subsidiary is a collective entity covered by the Parent-Subsidiary Directive, if:

(1) such distributions are deductible by the payer located in another EU Member State (**anti-hybrid rule**); or if

(2) the transaction is characterized as abusive within the meaning of the Parent-Subsidiary Directive (general anti-abuse rule). In this respect, a transaction may be considered as abusive if it is an arrangement, or a series of arrangements, that is not "genuine" (i.e. that has not been put in place for valid commercial reasons reflecting economic reality) and has been put in place for the main purpose or one of the main purposes of obtaining a tax advantage that is not in line with the objective of the Parent-Subsidiary Directive.

Other **anti-hybrid rules** arising from the Anti-Tax Avoidance Directive 2 can prevent the exemption of profit distributions, if treated as tax deductible in the hands of the foreign non-EU payer.

Lastly, **a specific anti-abuse rule** applies in case of a tax-neutral share-for-share exchange, whereby the income from the participation received cannot be tax exempt before the end of the fifth year following the exchange if the income arising from the participation given would not have been tax exempt in the absence of such exchange.

Optional waiver

Taxpayers can opt to waive the exemption applicable to dividends, liquidation proceeds and capital gains, when such exemption results from an acquisition cost of at least EUR1.2 million (**for dividends and liquidation proceeds**) or EUR6 million (**for capital gains**).

The waiver must be requested individually for each tax year and for each participation.

Dividends received — not qualifying for participation exemption

Dividends received by a Luxembourg entity that do not qualify for the participation exemption are taxed at the full rate of 23.87 percent, which is the aggregate of corporate income tax, municipal business tax and the employment fund levy, for companies established in Luxembourg City (since 2025).

50 percent of these dividends can be exempt from taxation, i.e. they will be subject to an 11.935 percent effective tax rate, if they are paid by:

- a fully taxable resident corporation; or
- a corporation resident in a country with which Luxembourg has signed a tax treaty and that is fully subject to an income tax comparable to the Luxembourg corporate income tax; or
- a company that is covered by the Parent-Subsidiary Directive.

Optional waiver

Taxpayers can opt to waive this 50 percent exemption.

The waiver must be requested individually for each tax year and for each participation.

13. See footnote 2
14. See footnote 3

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Withholding tax exemption

The recipient must be:

- a collective entity covered by the Parent-Subsidiary Directive[15]; or
- a fully taxable resident corporation not listed in article 166 LITL paragraph 10[16]; or
- a permanent establishment of one of the above qualifying entities; or
- a collective entity resident in a treaty country and fully subject to an income tax comparable to the Luxembourg corporate income tax, as well as a Luxembourg permanent establishment of such a collective entity; or
- a corporation that is resident in and subject to corporate tax in Switzerland without benefiting from an exemption; or
- a corporation or co-operative company resident in a member state of the EEA other than an EU Member State and fully subject to an income tax comparable to the Luxembourg corporate income tax; or
- a permanent establishment of a corporation or of a co-operative company resident in an EEA Member State other than an EU Member State.

The Luxembourg subsidiary must be:

- a fully taxable resident collective entity listed in article 166 LITL paragraph 10; or
- a fully taxable resident corporation not listed in article 166 LITL paragraph 10[17].

The exemption also applies to a participation in a qualifying company held through tax-transparent entities.

The minimum participation in the share capital[18] that qualifies for the dividend withholding tax exemption is:

- a 10 percent participation; or
- an acquisition price of at least EUR1.2 million.

Minimum retention period

The recipient must have held (or, subject to specific conditions, commited to hold) the minimum participation for at least 12 months on the date that the dividend is allocated or realized for tax purposes.

The test applies to the participation in general rather than on a share-by-share basis.

General anti-abuse rule

A general anti-abuse rule was introduced into Luxembourg domestic tax law in order to comply with the amendment of January 2015[19] made to the Parent-Subsidiary Directive.

Dividends falling within the scope of the Parent-Subsidiary Directive, which are paid by a Luxembourg fully taxable company to a collective entity covered by the Parent-Subsidiary Directive, or its EU permanent establishment, will not benefit from a withholding tax exemption if the transaction is characterized as an abuse of law within the meaning of the Parent-Subsidiary Directive.

In this respect, a transaction may be considered as abusive if it is an arrangement, or a series of arrangements, that is not "genuine"(i.e., that has not been put in place for valid commercial reasons reflecting economic reality) and has been put in place for the main purpose or one of the main purposes of obtaining a tax advantage that is not in line with the objective of the Parent-Subsidiary Directive.

15. See footnote 7
16. See footnote 6
17. See footnote 6
18. See footnote 11
19. See footnote 3

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Non-application of the participation exemption

Where the conditions of the Luxembourg participation exemption are not met, a 15 percent withholding tax is levied on dividends distributed by a Luxembourg-resident fully taxable corporation. This rate may be reduced to 0 percent under applicable double tax treaties.

In addition, Luxembourg law provides for several entities which are subject to a specific tax regime. The following are, in this context, not subject to withholding tax on dividend distributions: undertakings for collective investment (UCIs) governed by Luxembourg law, including SICAV/SICAFs and FCPs operated as retail funds or specialized investment funds (fonds d'investissement spécialisés — SIFs), or reserved alternative investment funds (fonds d'investissement alternatifs réservés — RAIFs), undertakings for collective venture capital investment (sociétés d'investissement en capital à risque — SICARs), and family asset holding companies (sociétés de gestion de patrimoine familial — SPFs).

Also, no withholding tax is levied on dividend distributions from a securitization company, as its shareholders are treated like bondholders.

No withholding tax on liquidation proceeds

This applies regardless of the tax status of the liquidated company or the recipient.

The withholding tax exemption also applies to partial liquidation proceeds arising from the repurchase of a class of shares (subject to conditions).

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Net wealth tax exemption

Status of parent entity, of subsidiary and size of participation

The conditions to be met for the exemption of qualifying participations from net wealth tax are generally the same as for the exemption from income tax of dividends received by Luxembourg-resident parent companies[20], but:

- The net wealth tax exemption is not subject to any minimum retention period conditions.
- Debts relating to the acquisition of exempt participations are not deductible from the net wealth tax basis.

Capital gains taxation for non-residents

If a non-resident shareholder benefits from a bilateral double tax treaty between their jurisdiction of residence and Luxembourg, the treaty usually allocates the taxation right to the country of residence of the shareholder (this should be verified on a case-by-case basis).

If a non-resident shareholder is tax resident in a country that has no such double tax treaty with Luxembourg, capital gains on the sale of shares in a Luxembourg company are taxable in Luxembourg if:

- the non-resident shareholder has held directly or indirectly a stake of more than 10 percent of the shares in the Luxembourg company; and
- has disposed of such shares within a period of six months following the acquisition.

A taxable gain is subject to 17.12 percent corporate income tax if realized by a non-resident **corporate** shareholder with no Luxembourg permanent establishment — and to a progressive rate scale from 0 percent to 42 percent if realized by a non-resident **individual** shareholder.

20. Please refer to pages 3 and 4 of this publication for a summary of these conditions.

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Summary table

	Income tax exemption for dividends, capital gains and liquidation proceeds received	Dividend withholding tax exemption	Net wealth tax (NWT) exemption
Status of the parent	• Fully taxable Luxembourg resident collective entity with one of the legal forms listed in Art. 166, §10 LITL; • Fully taxable Luxembourg resident corporation not listed in Art. 166, §10 LITL; • Luxembourg PE of: - a collective entity covered by the Parent Subsidiary Directive (PSD); or - a corporation resident in a country with which Luxembourg has signed a double tax treaty (DTT); or - a corporation or a co-operative company that is resident in an EEA country other than a member state of the European Union	• Collective entity covered by the PSD, or its PE; • Fully taxable Luxembourg resident corporation not listed in Art. 166, §10 LITL, or its PE; • Collective entity resident in a treaty country and fully subject to a CIT comparable to the Luxembourg CIT, or its Luxembourg PE; or • Swiss-resident corporation subject to Swiss CIT without benefiting from an exemption; or • Corporation or co-operative company resident in a member state of the EEA other than an EU Member State and fully subject to a CIT comparable to the Luxembourg CIT; • A PE of a corporation or co-operative company resident in a member state of the EEA other than an EU Member State	• Fully taxable Luxembourg resident collective entity with one of the legal forms listed in Art. 166, §10 LITL; • Fully taxable Luxembourg resident corporation not listed in Art. 166, §10 LITL; • Luxembourg PE of: - a collective entity covered by the PSD; or - a corporation resident in a country with which Luxembourg has signed a DTT; or - a corporation or a co-operative company that is resident in an EEA country other than a member state of the European Union
Status of the subsidiary	• Collective entity covered by the PSD; or • Fully taxable Luxembourg resident corporation not listed in Art. 166, §10 LITL; or • Non-resident corporation fully subject to a corporate income tax (CIT) comparable to the Luxembourg CIT	• Fully taxable Luxembourg resident collective entity with one of the legal forms listed in Art. 166, §10 LITL; • Fully taxable Luxembourg resident corporation not listed in Art. 166, §10 LITL	• Collective entity covered by the PSD; or • Fully taxable Luxembourg resident corporation not listed in Art. 166, §10 LITL; or • Non-resident corporation fully subject to a corporate income tax CIT comparable to the Luxembourg CIT
Size of the participation in the share capital	• 10 percent participation; or • Acquisition price of EUR1.2 million for dividend and liquidation proceeds exemption and EUR6 million for capital gains exemption	• 10 percent participation; or • Acquisition price of EUR1.2 million	• 10 percent participation; or • Acquisition price of EUR1.2 million
Minimum holding period	12 months (can also be met prospectively, subject to commitment)	12 months (can also be met prospectively, subject to commitment)	No minimum retention period
Deductibility of expenses/ liabilities	Possible only for the portion of expenses exceeding the exempt income	N/A	Liabilities linked to an exempt participation are not deductible from the NWT basis
Optional waiver	Possible for dividends, liquidation proceeds and capital gains, to the extent the exemption results from an acquisition price of EUR1.2 million for dividend and liquidation proceeds exemption and EUR6 million for capital gains exemption	N/A	N/A
Recapture rules	The capital gain realized on a qualifying participation will be taxable up to the amount of any expenses related to such participation, including a write-down in value, that have previously reduced the company's taxable income	N/A	N/A

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