Luxembourg Country Profile

EU Tax Centre

June 2017

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	Turkmenistan[a]
Belgium	Hungary	Macedonia	Saudi Arabia	UAE
Botswana[a]	Iceland	Malaysia	Senegal[a]	UK
Brunei	India	Malta	Serbia	Ukraine[a]
Brazil	Indonesia	Mauritius	Singapore	US
Bulgaria	Rep. of Ireland	Mexico	Slovakia	Uruguay
Canada	Isle of Man	Moldova	Slovenia	Uzbekistan
China	Israel	Monaco	South Africa	Vietnam
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 30,000, 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, redeemable shares or tracking shares.

SARL: minimum share capital of EUR 12,000 fully paid up at incorporation. Capital is divided into registered shares and may be represented by redeemable shares or tracking 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 the calendar year. Corporate tax returns (including corporate income tax, municipal business tax and net wealth tax returns) are due by May 31 of the following year (extension to December 31 possible). 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 withholding tax returns are required.

Tax rate

For companies with a taxable income above EUR 30,000, the corporate income tax rate is 19 percent. The aggregate rate for these companies in Luxembourg-City is 27.08 percent, including municipal business tax of 6.75 percent and the contribution to the employment fund of 1.33 percent (i.e. 7 percent of the 19 percent CIT rate).

For companies with a taxable income between EUR 25,000 and EUR 30,000, the corporate income tax rate is a basic amount of EUR 3,750 plus 39 percent of the income exceeding EUR 25,000. In addition, these companies should be subject to municipal business tax of 6.75 percent (in Luxembourg-City) and to the contribution to the employment fund (7 percent of the CIT charge).

For companies with a taxable income below EUR 25,000, the corporate income tax rate is 15 percent. The aggregate rate for these companies in Luxembourg-City is 22.80 percent, including municipal business tax of 6.75 percent and the contribution to the employment fund of 1.05 percent..

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-residents' literary activities, artists' 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 percent) applies (at least 10 percent or acquisition price of EUR 6,000,000, minimum holding period of 12 months or, commitment).

Tax losses

Carry-forward of tax losses incurred as of January 1, 2017 is limited to 17 years. The older tax losses must be deducted first.

Tax losses incurred between January 1, 1991 and December 31, 2016 can still be carried forward without any time limitation.

No carry-back of tax losses possible.

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 fiscal integration. As of the tax year 2015, new measures provide for the possibility to apply for "horizontal" fiscal integration whereby domestic fully taxable companies / permanent establishment of a fully taxable non-resident company can consolidate without the 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) participating in the fiscal integration.

Registration duties

Only a fixed fee of EUR 75 is due upon incorporation of a Luxembourg company, upon amendment of its by-laws and upon transfer of its statutory seat.

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 Real estate tax of 0.7 to 1 percent on the unitary value of real estate property (as fixed by the tax administration based on provisions of the evaluation law), multiplied by a municipal coefficient ranging from 100 to 1500 percent, depending on the nature of the property and on the municipality.
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 upward or downward adjustments of profits for transfer pricing purposes. According to a circular for intra-group financing companies (issued December 27, 2016), a transfer pricing study should - based on a comparability analysis - identify the functions performed, the assets used and the risks related to the intra-group financing activity. The study should then determine whether the Luxembourg financing company has the financial capacity to manage the risks should they evenutuate. The equity at risk should be appropriately remunerated and may be used to finance the company's loan portfolio or other assets. The return on equity at risk should, in principle, be subject to direct taxation in Luxembourg. 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 from 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 a 80 percent exemption on royalties and capital gains with regard to certain intellectual properties was 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	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 2017.

Contact us

Louis Thomas

KPMG in Luxembourg

T +352 22 5151 5527

E louis.thomas@kpmg.lu

Flora Castellani

KPMG in Luxembourg

T + 352 22 5151 5353

E fcastellani@kpmg.lu

www.kpmg.com