



# European Tax Survey – Luxembourg

## 1. Taxation of corporation

### 1.1. Corporate Tax

- **Tax payer**

*Corporate income tax (Impôt sur le Revenu des Collectivités)*

all companies resident in Luxembourg and Luxembourg source profits (permanent establishment) of non resident companies

*Municipal business tax (Impôt Commercial Communal)*

all companies resident in Luxembourg and Luxembourg source profits (permanent establishment) of non-resident companies

- **Tax base**

*Corporate business tax (Impôt sur le Revenu des Collectivités)*

Global income disclosed in the financial statements adjusted with + or – items for tax purposes. Income is defined as being the difference between net assets at the beginning of the fiscal year and net assets at the end of the fiscal year, diminished by private assets brought into the corporation (by shareholders) and increased by personal withdrawals (in favour of the shareholders).

Dividends received and capital gains on holdings are totally tax exempt if eligible within the “Soparfi” regime; losses on shares are not deductible for tax purpose.

*Municipal business tax (Impôt Commercial Communal)*

Municipal business tax is levied on the basis of the operating profits which are calculated in accordance with the specified income tax rules and adjusted by applying certain additions and deductions. Corporations liable to corporate income tax are granted an allowance on tax base of €17,500.00.

- **Tax loss**

Unlimited tax loss carried forward; no tax loss carried back.

- **Rate**

*Corporate business tax (Impôt sur le Revenu des Collectivités)*

Normal rate 22 % on taxable income exceeding € 15,000.00; in addition a 4 % extra-charge on 22 % for the unemployment fund (« impôt de solidarité »).



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### *Municipal business tax (Impôt Commercial Communal)*

3 % multiplied by the individual municipality's own ratio. Insofar as this ratio is normally 250 %, the tariff usually ends up at 7.5 %, whereas the effective rate varies between 6 % and 10.5 % depending on the municipality of establishment or head office of the corporation.

## 1.2. Wealth tax

### **Tax payer**

Same as for income tax and municipal business tax.

### **Tax base**

Tax is based on the net assets held within Luxembourg by corporations with share capital and by cooperative entities.

### **Rate**

Wealth tax is charged 0.5 % of net taxable assets. Resident companies with share capital have a taxable minimum of € 12,500.00 for S.A. and S.C.A. and € 5,000.00 for Sàrl.

Property valuations (real estate) are calculated based on unit values set by the Tax Authority which are normally lower than actual values. Participations when coping with basic Soparfi rules are exempted from wealth tax.

## 1.3. Property tax

### **Tax payer**

Any corporation (Luxembourg or foreign) having real estate property has to pay property tax to the municipality of the location of the real estate.

### **Tax base**

The law defines land property which qualifies for this charge, more especially operating assets where these constitute operating or trading premises.

### **Tariff**

Property tax has three components: Unit value, basic rate and local rate. Unit values are set by the Administration (Bureau d'Evaluation des Immeubles) and are multiplied by the basic rate, set at 8 or 10 per thousand depending on the type of asset concerned, to determine the tax base.

The tax is then calculated by multiplying the tax base by the local rate set for the calendar year by each Municipality.



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### 1.4. Social security contributions

On gross salary, the corporation has to pay 11.41 % - 16.76 % social security contributions for employees and 13.66 % - 19.01 % for labour workers (effective % depends on professional activity/risk factor of the corporation as regards insurance for labour accidents and professional illness).

### 1.5. Tax at source

- 15 % on dividends (since January 01, 2007) except dividends paid to a 29 holding company, a Family Wealth Management Company (new corporate vehicle created May 2007), and dividends paid to a Luxembourg or EU normally taxed corporation if holding period of at least one year and amount of holding at least 10 % or, if lower, at least € 1,200,000.00.
- Nil on interests if paid to another corporate vehicle, 10 % if paid to a natural person (this withholding being a final lump sum taxation)  
In addition, EU withholding tax system on interest payment applies if interests are paid to non resident natural persons with residence in an EU State or an associated State with the EU.
- 10 % on income arising out of carrying on an independent activity of literary, or artistic nature, carrying on a professional sporting activity, out of royalties paid for the use or grant of use of a copyright or a literary, artistic or scientific work.
- 20 % on profit quotas (“tantièmes”)

### 1.6. VAT

#### Tax payer

VAT is paid by the end consumer; in between VAT is recoverable.

#### Tax base

Total price of good/charge for service

#### Rate

Normal rate: 15 %

Lower rates: - 0 %: gold

- 3 %: nutrition, books, restaurants

- 6 %: electricity, gas



## 2. Taxation of natural persons

### 2.1. Income tax

- **Tax payer**

All natural persons resident in Luxembourg and non-residents on their Luxembourg-source income (limited to business profit, rental income from land and buildings in Luxembourg and salaries). Non-resident individuals are normally not taxed on investment income (two exceptions: dividends paid by a resident normally taxed corporation and interests received on a mortgage loan registered in Luxembourg).

- **Tax base**

Global income; eight types of income: profit from commercial business, profits from agriculture and forestry, profit arising from self-employment activities, employment income, pensions, investment income, lease income and sundry net income.

The following deductions are eligible:

- Agriculture and forestry: € 2,250.
- Transfer or termination of a business: profit arising from the transfer or termination of an undertaking is reduced by an allowance up to a maximum of € 10,000 (increased to € 25,000 if the transfer includes land and buildings used in the business).
- Deduction of € 672.- per member of taxed household (children included) for contributions to a building finance institution.
- Deduction of € 672.- per member of a taxed household (children included) for debit interest payment in front of personal loans (car, furniture, sundry).
- Extraordinary charges: significant unavoidable expenses falling on a resident taxpayer.
- Wage-earners: there is an automatic deduction of € 540.- granted to employees multiplied by two when spouses both earn wages. Similar deduction for retired persons.
- Life insurance premiums are deductible up to € 672.- for each member of the taxed household (children included).
- Deduction of maximum € 3,400.00 for each member of the taxed couple as regards contribution to a non compulsory pension scheme (deductible amount depends on age of contributor).
- Deduction of maximum € 1,200.00 for each member of taxed couple for contributions to a scheme of a private complementary pension.



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Allowances: for spouses taxable jointly, where each enjoys professional income, of which at least one is an employee, an annual allowance of €4,500 is granted on the total of the net income received by the couple.

- **Rate**

Rate rises in 16 steps from 0 (up to € 9,750.00) to 38 % (beyond € 34,500.00). In addition, a 2.5 % charge calculated on the tax amount will be levied as a contribution to the unemployment fund (“Impôt de solidarité”).

### **2.2. Wage tax**

Tax payers who are paid salaries will be taxable at source on their gross salaries (after contribution to social security) at a rate predetermined by the Tax Authority and very close to the actual tax rate (see item 2.1. above “rate”).

### **2.3. Social security contributions**

#### **A. Self-employed person**

The contribution is based on the last declared income pursuant to income tax return (business profit): minimum contribution € 3,883.95/year and maximum contribution € 19,419.77/year; rate of 23.07 % for doctors, architects, etc and 24.01 % for self employed businesses and handicraft.

#### **B. Employee/labour worker**

The contribution is based on gross income and the rate is set at 13.9 % for labour workers and 11.65 % for employees.