

# ATOZ TAX ALERT



## Only one month left to reduce 2018 net wealth tax liability

21 November 2018

Luxembourg corporate taxpayers can, upon request and under certain conditions, benefit from a reduction of the Luxembourg net wealth tax (NWT). One of the conditions to benefit from the NWT reduction is the allocation of an amount corresponding to five times the NWT reduction claimed to a special NWT reserve to be created in the balance sheet. To benefit from a 2018 NWT reduction, taxpayers will have to make the allocation prior to the end of 2018. Therefore, now is the time for them to determine whether they meet the conditions to benefit from the reduction, compute the amount of the reduction they may request and take the necessary steps to make an appropriate allocation to the NWT reserve on time.

### What is the NWT and how is it computed?

The NWT is levied annually on the fair market value of resident and non-resident opaque companies' net assets as at 1 January of each year. In practice, as a simplification measure and even for companies with an accounting period which does not correspond to the calendar year, the NWT may be computed based on the year-end balance sheet of the preceding accounting year. The net assets correspond to the total assets (taking into consideration their fair market value) reduced by the liabilities of the company. While resident companies are taxed on their global assets, non-resident companies are taxed only on their net wealth held in Luxembourg.

The rate of Luxembourg NWT is 0.5% on the portion of the net wealth lower or equal to EUR 500 million and 0.05% on the portion of the net wealth exceeding EUR 500 million.

Since 1 January 2017, Luxembourg companies are subject to either the NWT as per the unitary value or a minimum NWT varying between EUR 535 and EUR 32,100, whichever amount is the highest. The amount of the minimum NWT is to be reduced by the amount of corporate income tax (including the solidarity surcharge, the "CIT") of the preceding tax year.

## How can taxpayers benefit from a reduction of NWT?

When corporate taxpayers are subject to NWT as per their unitary value (i.e. subject to an amount which is higher than the minimum NWT), they have the possibility to request a reduction of the NWT due (provided that they were subject to CIT for the preceding tax year) by creating a specific NWT reserve in their balance sheet, which should amount to 5 times the amount of the requested reduction and which should be maintained in the accounts for 5 years (the "NWT Reserve").

Up until the 2016 tax year, an administrative tolerance allowed taxpayers to create the NWT reserve at the latest in the accounts of the following accounting year (e.g. the reserve reducing the 2016 NWT, computed based on the 2015 accounts of a company, had to be created at the latest during the 2017 accounting year).

Since the 2017 tax year and based on a Circular of the Luxembourg tax authorities released on 17 May 2018, when a taxpayer requests a reduction of its NWT liability, it must make the allocation to the NWT Reserve before the end of the tax year in respect of which the NWT reduction is requested. Thus, in the case of a company with a tax year corresponding to the calendar year, the NWT Reserve reducing the 2017 NWT must in principle be created before the end of the year 2017, meaning that it has to be reflected in the company's 2017 annual accounts.

In the same way, in order to benefit from a reduction of the 2018 NWT, companies have to create the 2018 NWT Reserve before the end of their 2018 accounting year, so that this reserve is visible in their 2018 annual accounts. Therefore, Luxembourg taxpayers should act quickly in order to determine whether they may be able to benefit from a NWT reduction and if so take the necessary steps in order to make sure that their NWT reserve is created on time, i.e. prior to 31 December 2018.

## Can we help? Do you have further questions?



**HUGUES HENAFF**  
Partner, International and  
Corporate Tax  
[hugues.henaff@atoz.lu](mailto:hugues.henaff@atoz.lu)  
T +352 661 830 516



**PETYA DIMITROVA**  
Principal, International and  
Corporate Tax  
[petya.dimitrova@atoz.lu](mailto:petya.dimitrova@atoz.lu)  
T +352 661 830 224