
CHAMBERS GLOBAL PRACTICE GUIDES

Corporate Tax 2026

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Luxembourg: Law and Practice & Trends and Developments
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LUXEMBOURG



Law and Practice

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ATOZ Tax Advisers is a leading independent tax advisory firm offering a comprehensive range of direct and indirect tax solutions, as well as transfer pricing, corporate finance, tax litigation and ESG services, to local and international clients. Founded in 2004, the firm operates offices in Luxembourg, Morocco, the Middle East and the United Kingdom. In addition, in 2005, ATOZ was amongst the founding members of

the Taxand network, the world's largest independent organisation of tax experts, with more than 700 tax partners and over 3,000 tax advisers in 51 countries. Over 20 years of long-standing relationships allow the firm to assemble bespoke, multi-jurisdictional teams, delivering seamless and high-quality tax advice tailored to clients' needs.

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1. Corporate Structures, Residence and Tax Treatment

1.1 Corporate Forms and Their Tax Treatment

Businesses in Luxembourg commonly adopt corporate forms because these entities offer legal certainty, limited liability and access to the jurisdiction's extensive tax treaty network. The most frequently used incorporated forms are:

- *société anonyme* (SA) – joint-stock company, suitable for large businesses;
- *société à responsabilité limitée* (Sàrl) – private limited liability company, widely used for holding, financing and operational activities; and
- *société en commandite par actions* (SCA) – partnership limited by shares, often used in investment structures.

These incorporated entities are treated as separate legal and taxable persons. They are generally subject to:

- corporate income tax (CIT);
- municipal business tax (MBT); and
- net wealth tax (NWT).

Luxembourg's corporate tax system is entity-based, meaning the entity itself – not the shareholders – is taxed on its worldwide income (for resident companies).

1.2 Use and Taxation of Transparent Business Structures

Luxembourg also provides several tax transparent vehicles, particularly attractive for investment funds, private equity structures and joint ventures. Common transparent entities are:

- *société en commandite simple* (SCS) – common limited partnership;
- *société en commandite spéciale* (SCSp) – special limited partnership, highly flexible, no legal personality, widely used for private equity, venture capital, real estate and debt funds;
- *fonds commun de placement* (FCP) – mutual fund without legal personality and tax transparent; and
- certain joint venture contractual arrangements.

Tax transparency means the entity is not taxed: income flows through to investors. It facilitates international fund structuring and the use of investors' own tax attributes. From a regulatory point of view, it is flexible – especially for AIFMD fund structures.

In so far as the SCS and the SCSp are concerned, there may be very limited situations where they are either subject to MBT (where they are commercially tainted) or to CIT (where they are considered as reverse hybrid).

Sector-specific use is as follows:

- private equity/venture capital – SCSp and SCS dominate;
- real estate funds – SCSp, SCS or FCP depending on strategy; and
- investment groups – holding companies structured with Sàrl/SAs on top and SCSp/SCS at the fund level.

1.3 Tests for Determining Tax Residence

Luxembourg determines the tax residency of an entity based on either the place of incorporation or the place of effective management. An entity is considered Luxembourg resident if:

- it is incorporated in Luxembourg; or
- its place of effective management (central administration) is located in Luxembourg. Effective management includes where strategic decisions are made, board meetings held and senior management operates.

For transparent entities, “residence” is relevant only for withholding tax assessments and eligibility for treaty benefits (rarely applicable) because transparent entities (SCS, SCSp, FCP) are not taxable persons.

1.4 Applicable Corporate and Individual Tax Rates

Incorporated Businesses *Corporate income tax (CIT)*

The ordinary CIT rate applicable to resident and non-resident collective entities in 2026 is:

- 14% for taxable income not exceeding EUR175,000;
- EUR24,500 plus 30% of the income exceeding EUR175,000 for taxable income between EUR175,000 and EUR200,001; or
- 16% for taxable income exceeding EUR200,000.

CIT applies only to corporate entities listed in Article 159 of the Income Tax Law and does not apply to tax transparent entities (eg, general or limited partnerships or European economic interest groupings).

To CIT you must add:

- solidarity surcharge;
- municipal business tax; and
- net wealth tax.

Solidarity surcharge

The solidarity surcharge is 7% of CIT for the year 2026 – bringing the aggregate CIT rate to 17.12% (16% rate + (7% x 16%)) for the year 2026 for collective entities whose taxable income is above EUR200,000.

Municipal business tax (MBT)

The MBT rate varies by municipality, approximately 6.75% in Luxembourg City.

Net wealth tax (NWT)

NWT applies to resident companies (subject to exemptions for certain companies). It is a state tax levied on the net wealth of companies, charged on their worldwide so-called “unitary value” (generally equal to the net asset value of the company or branch – subject to certain exemptions and adjustments). The NWT rate is 0.5% on that part of the net wealth up to EUR500 million and 0.05% on that part of the net wealth exceeding EUR500 million. A reduction of the NWT can be requested by an entity in its CIT tax return, provided that it undertakes to enter, before the end of the following year, an amount equivalent to five times the reduction requested in a reserve account and to maintain this reserve in its balance sheet for a five-year period.

Luxembourg companies are subject to the higher of either the NWT as per the unitary value or a minimum NWT varying between EUR535 and EUR4,815.

The amount of minimum NWT is computed as follows, as from 2025:

- a minimum NWT of EUR535 where the total balance sheet is less than or equal to EUR350,000;
- a minimum NWT of EUR1,605 where the total balance sheet is greater than EUR350,000 and less than or equal to EUR2 million; or
- a minimum NWT of EUR 4,815 where the balance sheet total is greater than EUR2 million.

Businesses Owned by Individuals Directly

If a business is run directly by an individual (sole proprietorship/partnership interest):

- the income is taxed at progressive personal income tax rates, up to approximately 45.78% including surcharges; and
- social security contributions may also apply.

Businesses Owned by Individuals Through Transparent Entities

Partners in an SCS or SCSp are taxed personally on their share of the partnership’s income:

- corporate partners – corporate tax rates; and
- individual partners – progressive personal tax rates.

In principle, a transparent entity itself is not subject to tax. The reverse hybrid rules introduced by the second anti-tax avoidance directive (ATAD) also provide that where a Luxembourg tax transparent entity is qualified as a reverse hybrid entity (because it is considered as opaque by the country where the investors are resident, subject to other conditions being met), it shall be subject to CIT on the portion of its net income (that is not otherwise taxed).

In addition, it may be subject to MBT, as it is levied on any income generated on a Luxembourg commercial activity, if:

- it carries out a commercial activity (*sociétés en commandite simple* (SCSs) and *sociétés en commandite spéciale* (SCSpS) are not considered to be commercial by nature); or
- it meets the “commercial taint” rules (eg, involvement of a commercial general partner) – income of

an SCS or SCSp is considered to constitute commercial profits if at least one of its general partners is a capital company holding at least 5% of its interests or the SCS/SCSP undertakes a commercial activity. When SCSs or SCSPs are alternative investment funds, they are nevertheless deemed not to realise commercial activities (unless their general partner owns at least 5% of the interests).

2. Corporate Tax Regime

2.1 Taxable Profits

Luxembourg computes taxable profits based on accounting profits prepared under Lux GAAP, then applies tax adjustments provided in the Luxembourg Income Tax Law (LITL). For CIT purposes, profits are taxed on an accruals basis, meaning income and expenses are recognised when earned or incurred, not when paid.

Key adjustments under the LITL are as follows:

- non-deductible expenses (eg, certain provisions, fines, non-business expenses);
- depreciation based on tax depreciation rules, which may differ from accounting treatment;
- participation-exempt income (dividends, capital gains) is removed from the taxable base where exemption conditions are met; and
- recapture rules, whereby expenses connected with exempt income may be added back.

The end result is taxable profit subject to:

- corporate income tax (CIT); and
- municipal business tax (MBT).

2.2 Technology Investments

Luxembourg offers targeted incentives for innovation-driven activities. Research and development (R&D) expenses are generally tax deductible. Since 1 January 2018, Luxembourg has implemented an intellectual property (IP) regime that complies with the “modified nexus” approach endorsed by both the OECD and the European Union as part of the Base Erosion and Profit Shifting (BEPS) project. Under this regime, an 80% exemption from corporate income

tax (CIT) and municipal business tax (MBT) may apply – subject to certain conditions – to the net income derived from qualifying rights in patents (defined broadly) and copyrighted software. The exemption is limited to IP assets that are not marketing-related and that were created, developed or enhanced after 31 December 2007, provided the income originates from eligible R&D activities. In addition, IP assets which qualify for the 80% CIT exemption are 100% exempt from net wealth tax.

2.3 Special Incentives

Luxembourg’s tax framework contains multiple incentives tailored to specific industries. For that purpose, Luxembourg offers a wide range of investment vehicles, some of which benefit from a tax regime differing from that applicable to fully taxable corporate entities.

Investment Funds

The following regulated investment funds are exempt from any taxation on their income, but are subject to a so-called subscription tax on the value of their net assets:

- undertakings for collective investment in transferable securities (UCITS) within the meaning of the UCITS Directive;
- funds set up under Part II of the Luxembourg Law of 17 December 2010 on undertakings for collective investment (UCIs) (ie, undertakings for collective investment which are not UCITS) that qualify as alternative investment funds (AIF); and
- specialised investment funds (SIFs), which are multi-purpose investment funds dedicated to so-called sophisticated investors.

While the income exemption applies in the same way to all investment fund types listed above, the rate of subscription tax varies depending on the type of fund, from 0.01% to 0.05%. Some subscription tax exemptions apply in certain cases. Notably, actively managed exchange traded funds are exempted from subscription tax with effect as from 1 January 2025, aligning to the regime already applicable to passively managed exchange traded funds.

Securitisation vehicles (SVs) set up as a securitisation fund (which acquires or assumes, directly or through

another undertaking, risks relating to claims, other assets or obligations assumed by third parties or inherent to all or part of the activities of third parties and issues securities whose value or yield depends on such risks) are transparent for tax purposes and thus are not subject to taxation on their income. They are also not subject to subscription tax.

Some other types of investment vehicles are fully subject to tax on their income as any other fully taxable Luxembourg corporate entity, but either benefit from certain exemptions on certain income categories (*sociétés d'investissement en capital à risque* (SICARs)) or are subject to specific rules when computing their tax base (SVs in corporate form):

- an investment company in risk capital (SICAR), designed for private equity and venture capital investments, must invest its assets in securities representing risk capital; and
- an SV established in corporate form (same activity as a securitisation fund) is fully subject to Luxembourg corporate taxation on its income, like any other fully taxable entity, but benefits from specific rules – particularly dedicated deductions – when determining its taxable base.

Finally, the reserved alternative investment fund (RAIF) blends the features and structuring flexibility of both the regulated Luxembourg SIF and the SICAR – qualifying as an AIF managed by an authorised AIFM – while distinguishing itself by not requiring prior approval from the Luxembourg financial regulator, as it must be managed by a fully authorised AIFM. For tax purposes, depending on the activity they perform, RAIFs are subject to either the same income tax exemption regime as SIFs (and subscription tax) or the same tax regime as SICARs.

Specific Transaction Types

Luxembourg's tax framework also contains multiple incentives tailored to specific transaction types. In addition to the IP regime described in **2.2 Technology Investments** and the participation exemption in **6.3 Dividends From Foreign Subsidiaries**, the law on 19 December 2023 introduced a major reform of the investment tax credit (ITC) framework, effective as from the 2024 tax year. This framework aims to accel-

erate the digital transformation as well as the ecological and energy transition of Luxembourg businesses and to strengthen the competitiveness of Luxembourg companies, by stimulating more innovation, while promoting the development of knowledge and skills in digital transformation and ecological and energy transition. The framework provides for the following.

- A global ITC of 12% based on the acquisition price or cost price of investments made during a financial year, granted on investments in tangible depreciable assets other than buildings, livestock and mineral and fossil deposits, and for the acquisition of software.
 - (a) For investments in fixed assets approved to be eligible for the special depreciation referred to in Article 32bis of the LITL, the tax credit is increased to 14%.
- A specific income tax credit for investments and operating expenses linked to the digital transformation or ecological and energy transition. The rate of the new tax credit is either 18% or 6% depending on whether investments are made in tangible depreciable assets or not.

2.4 Loss Relief

Tax losses may be deducted as special expenses, provided they arise from proper accounting records and are used solely by the Luxembourg taxpayer that originally incurred them. As a result, losses cannot be transferred to shareholders; and, following the acquisition of a company, the ability to carry forward existing losses may be limited – particularly where the acquired company was a shelf entity or where the activity that generated those losses has ceased or fundamentally changed.

Luxembourg applies different carry forward rules depending on when the losses were incurred. Losses generated up to the fiscal year ending 31 December 2016 can be carried forward without time limitation, whereas those realised from 2017 onwards may only be carried forward for a maximum of 17 tax years. Carrying back of losses is not permitted.

Specific rules apply when a company opts for fiscal integration. Losses realised prior to entering a tax

consolidation can only be offset against the positive income generated during the consolidation by the entity that originally incurred those losses. After the consolidation ends, any losses generated during the consolidation period remain usable exclusively by the integrating parent company.

Under Luxembourg's worldwide taxation principle, tax losses incurred abroad by a domestic company are generally deductible in Luxembourg. However, this does not apply when the losses relate to a foreign permanent establishment located in a treaty country (subject to Court of Justice of the European Union case law) or to foreign immovable property.

2.5 Deduction of Interest

As a matter of principle, expenses, including interest, are only deductible when they are related to the business activity of the corporate taxpayer. In addition, Luxembourg tax law provides for specific limits on the deduction of interest.

Transfer Pricing Principles

Luxembourg's transfer pricing framework is anchored in Article 56 of the LITL, which empowers the tax authorities to adjust a company's taxable income when transactions between associated enterprises diverge from arm's length conditions. This may lead to an upward adjustment where a Luxembourg entity confers an undue advantage on a related party – for example, by paying interest at a rate above arm's length – or, conversely, to a downward adjustment where the Luxembourg entity is the beneficiary of such an advantage.

Separately, Article 164 (3) of the LITL provides that hidden dividend distributions – meaning benefits granted to a shareholder that would not have been provided absent the shareholding relationship, such as interest charged at a rate above arm's length – are not deductible for tax purposes. These rules governing hidden distributions operate alongside the transfer pricing framework and may, in certain cases, take precedence over arm's length adjustments.

Limitation to the Deduction of Interest

Subject to conditions, a corporate taxpayer may deduct its exceeding borrowing costs only up to the

higher of 30% of its earnings before interest, tax and amortisation or EUR3 million. Various exemptions to this limitation to the deduction of interest may apply.

Limitation for Entities Located in Non-Cooperative Jurisdictions

As from 1 March 2021, Luxembourg corporate taxpayers may no longer deduct interest or royalty payments where the beneficial owner is a collective undertaking established in a jurisdiction included on the EU list of non-cooperative tax jurisdictions. However, such payments remain deductible if the taxpayer can demonstrate that the underlying arrangement was implemented for valid economic reasons which reflect economic reality.

Thin Capitalisation Rules

In the absence of statutory thin capitalisation rules under Luxembourg tax law, the principles set out in Chapter X of the OECD Transfer Pricing Guidelines on financial transactions, released on 11 February 2020, serve as the primary reference point. Consequently, a Luxembourg company's debt-to-equity ratio must, in practice, be supported by a debt capacity analysis carried out as part of a transfer pricing assessment. Where the level of indebtedness is considered excessive, related interest payments may be recharacterised as hidden profit distributions, resulting in the denial of the tax deduction and potentially triggering Luxembourg dividend withholding tax.

Historically, the commonly used 85%/15% debt-to-equity ratio has not been systematically challenged, although the Luxembourg tax authorities have, in certain cases, requested formal debt capacity analyses. More recently, however, the Administrative Court has clarified that this 85/15 practice does not have any legally binding force.

2.6 Consolidated Tax Grouping

Fiscal consolidation is permitted for CIT and MBT purposes, but not for NWT. Luxembourg law allows groups to elect either vertical or horizontal tax consolidation, with the consolidated group being bound by the regime for a minimum period of five years. A company may not simultaneously belong to more than one tax-consolidated group.

Vertical tax consolidation is available where a fully taxable Luxembourg resident company, or the Luxembourg permanent establishment of a foreign company subject to a tax comparable to Luxembourg CIT, directly or indirectly holds at least 95% of the share capital of one or more fully taxable Luxembourg resident companies, or of a Luxembourg permanent establishment of a foreign entity subject to a comparable tax. Both the integrating parent and the integrated subsidiaries must have the same financial year end.

Horizontal tax consolidation applies where several subsidiaries are held, directly or indirectly, at a minimum of 95% by the same non-integrated parent entity. The integrating and integrated entities may be fully taxable Luxembourg companies or Luxembourg permanent establishments of foreign companies subject to a tax comparable to Luxembourg CIT. The non-integrated parent may be:

- a fully taxable Luxembourg company;
- a Luxembourg permanent establishment of a foreign company;
- a foreign company resident in a European Economic Area (EEA) member state and subject to a comparable tax; or
- a permanent establishment located in an EEA member state of such a foreign company.

Even though the parent is not part of the consolidation, the 95% shareholding requirement must still be met. All integrating and integrated entities must share the same financial year end.

Where the 95% shareholding is held indirectly, all intermediary companies must themselves be corporate entities fully subject to a tax comparable to Luxembourg CIT.

Tax consolidation takes effect only upon written request to the Luxembourg tax authorities and applies retrospectively from the start of the fiscal year in which the request is filed. Once elected, the regime must be maintained for at least five tax years.

2.7 Capital Gains

Capital gains are subject to CIT and MBT. However, Luxembourg offers rollover relief for certain qualify-

ing exchange operations, including transformations involving a change of legal form. Share-for-share exchanges – whether implemented through asset contributions or mergers – may be carried out on a tax-neutral basis provided that the new shares received are treated as replacing the former shares and that the ultimate taxation of the exchanged assets remains secured.

Rollover relief is available on capital gains realised by a resident transferor company whose assets and liabilities are transferred to another resident company, or to a company resident in the EU or the EEA, as a result of a merger or division. The relief applies when the transfer occurs in exchange for shares in the transferee company or through the cancellation of a participating interest held by the transferee in the transferor. A balancing cash adjustment may be paid, provided it does not exceed 10% of the nominal value of the shares issued. In addition, the transaction must preserve Luxembourg's right to tax the unrealised gains existing at the time of the transfer. This generally requires a transfer at book value and, if the transferee is not Luxembourg-resident, that the transferred assets remain attributable to a Luxembourg permanent establishment. This latter condition applies only in so far as the capital gain would otherwise have been taxable in Luxembourg.

Capital gains realised by a Luxembourg company or permanent establishment on the disposal of shares in a subsidiary are exempt from tax where, at the time the gain arises, the seller has held – or commits to hold for at least 12 uninterrupted months – a direct and continuous participation of at least 10% in the subsidiary or shares with an acquisition cost of at least EUR6 million. The subsidiary must either be an EU undertaking covered by the Parent-Subsidiary Directive, a fully taxable Luxembourg capital company, or a non-resident company subject to a tax comparable to Luxembourg CIT. In practice, the Luxembourg tax authorities generally require that the foreign company be subject to a minimum tax rate of 8% on a basis comparable to Luxembourg's.

Under the recapture rule, the exemption does not extend to the amount of related expenses previously deducted for tax purposes. Capital gains remain taxa-

ble up to the total of such expenses, including interest on acquisition debt or write-downs of the participation. Taxpayers may waive the participation exemption under certain conditions, but only when the eligibility requirements are met through the EUR6 million acquisition cost threshold; the exemption cannot be waived where the 10% shareholding requirement is satisfied. A waiver must be exercised separately for each tax year and each shareholding.

Finally, rollover relief may also apply – subject to specific conditions – where capital gains realised on certain assets are reinvested into qualifying replacement assets in accordance with Article 54 of the LITL.

2.8 Other Taxes on Transactions

VAT

VAT in Luxembourg applies to the following:

- supplies of goods and services;
- intra-Community acquisitions made by taxable persons in the course of their business; and
- imports from outside the EU.

The standard VAT rate is 17%. A taxable person is anyone who independently and regularly carries out an economic activity.

Luxembourg also applies several reduced rates.

- An intermediate rate of 14% applies to items such as fuels, certain advertising publications, and services relating to the administration or custody of securities.
- A reduced rate of 8% applies to gas, electricity and, under certain conditions, works of art and their supply.
- A super-reduced rate of 3% covers a wide range of goods and services, including broadcasting services, copyrights, most food products, books and periodicals, children's clothing, water, pharmaceuticals, passenger transport, accommodation, and access to cultural, educational, sporting, entertainment events and e-books.
- Finally, a zero rate applies principally to exports and intra-Community (interstate) supplies of goods.

Registration Duties

Registration duties in Luxembourg vary depending on the type of transaction or document. Transfers of Luxembourg real estate generally trigger a registration tax of 6% (increasing to 9% for certain properties in Luxembourg City), plus a 1% transcription tax, calculated on the higher of the purchase price or the property's fair market value. These taxes are deductible for corporate income tax purposes.

Certain corporate law formalities – such as the incorporation of a Luxembourg entity, amendments to its articles of association, or the transfer of its registered seat to Luxembourg – are subject to a fixed registration duty of EUR75.

When real estate is contributed to a company in exchange for shares, the contribution is subject to a proportional registration duty of 0.6% (or 0.9% for some Luxembourg City properties), plus a 0.5% transcription tax. If the consideration consists of something other than shares, the proportional duty increases to 6% (or 9% in Luxembourg City), and the transcription tax to 1%. Certain reorganisations may benefit from exemptions from proportional duties.

Contributions of movable property remunerated by means other than shares are also subject to a proportional registration duty, with the applicable rate depending on the nature of the assets contributed.

2.9 Other Notable Taxes

Property tax (IFON) is a local tax on the value of real estate situated in Luxembourg. On 10 October 2022, a draft law was submitted to Luxembourg's parliament to advance the long-anticipated reform of the national property tax system. A key element of the reform is the creation of a new property valuation model designed to enhance objectivity, transparency and fairness. The reform also introduces two additional taxes aimed at addressing the country's growing housing shortage: a land mobilisation tax (IMOB) intended to promote timely residential construction on designated plots and a national tax on vacant housing (INOL) to incentivise the return of unoccupied dwellings to the market.

Since 1 January 2021, an annual 20% real estate levy (*prélèvement immobilier*) has been introduced. It applies to income and gains arising from real estate assets situated in Luxembourg and realised either directly or indirectly (through tax transparent entities) by certain categories of exempt investment vehicles (ie, undertakings for collective investment, SIFs and RAIFs) which are “opaque” from a Luxembourg tax perspective.

3. Corporations and Non-Corporate Businesses

3.1 Form of Closely Held Local Businesses

Luxembourg does not have a proper closely held local businesses regime and there are no available statistics on whether closely held local businesses operate mostly in corporate or non-corporate form. However, Luxembourg company law provides for simplified company forms that are suitable for closely held local businesses.

- A simplified private limited liability company, or *société à responsabilité limitée simplifiée* (Sàrl-S) is designed to give first-time entrepreneurs immediate and simplified access to business activity. It benefits from significantly reduced share capital requirements – ranging from EUR1 to EUR12,000 instead of the standard EUR12,000 – and its articles of association do not need to be notarised. Only individuals may be shareholders, and in principle a person may hold shares in only one Sàrl-S at a time, while management must be entrusted exclusively to individuals.
- The simplified limited company or *société par actions simplifiée* (SAS), although less commonly used than the Sàrl, SA or SCA, can nevertheless serve as a suitable structure for start-ups or joint ventures. It is chosen in situations requiring flexible governance while still retaining certain features of the SA, particularly regarding capital structure and share arrangements. The SAS cannot publicly offer its shares, and although the law formally requires the appointment of only one chairman, it allows for more sophisticated and adaptable governance frameworks.

3.2 Individual and Corporate Rates

Luxembourg does not prohibit professionals from incorporating companies, but a combination of anti-abuse rules, substance requirements, transfer pricing rules and income recharacterisation principles ensures that individuals cannot simply route personal professional income through a company to artificially benefit from corporate tax rates. These rules effectively prevent misclassification of income and safeguard the integrity of the progressive personal income tax system.

In principle, while corporate rates may be lower, distributed profits are still subject to taxation at individual level (at the marginal rate, subject to a 50% dividend exemption) unless other reliefs apply. The 15% withholding tax levied at source by the distributing company should be creditable against the individual income tax of the dividend beneficiary. Combined with CIT + MBT + withholding/exemption mechanics, the overall effective tax rate is often not lower than personal marginal rates once profits are extracted.

3.3 Restrictions on Retention of Earnings by Closely Held Corporations

Luxembourg does not have a specific “accumulated earnings tax” like the US or certain other jurisdictions. However, Luxembourg companies are subject to net wealth tax (NWT) each year on the value of their net assets. Accumulating large passive portfolios inside a closely held corporation increases NWT liability annually, making it less attractive to stash investment assets inside operational companies merely to defer personal taxation.

3.4 Taxation of Individuals on Shares in Closely Held Corporations

For Luxembourg-resident individuals, dividends received from closely held corporations are generally:

- taxed at the progressive personal income tax rate, which can go up to approximately 45.78%; and
- eligible for a 50% exemption, provided certain statutory conditions are met (eg, when dividends originate from qualifying shareholdings). A participation qualifies if it meets one of the following conditions –

- (a) the distributing entity is a Luxembourg-resident company fully subject to Luxembourg income tax;
- (b) the distributing entity is a non-resident capital company subject to an income tax comparable to Luxembourg corporate income tax, in a jurisdiction that has concluded a double tax treaty with Luxembourg (typically requiring a minimum effective tax rate of 8% on a comparable tax base); or
- (c) the distributing entity is resident in an EU member state within the meaning of Article 2 of the Parent–Subsidiary Directive.

In addition to the 50% exemption, individuals may benefit from an annual EUR1,500 deduction on dividend income (doubled for jointly taxable couples).

Capital gains realised by Luxembourg-resident individuals on the sale of shares – whether in closely held or other corporations – are taxed depending on the holding period and the size of the participation.

- Shares held for six months or less (“speculative gains”) – Gains are fully taxable at the individual’s progressive personal income tax rate.
- Shares held for more than six months – Taxation depends on whether the shareholding is considered substantial.
 - (a) Non-substantial participation (less than 10%) – Capital gains are fully exempt from personal income tax.
 - (b) Substantial participation (10% or more) – Capital gains benefit from the half-global rate, meaning only 50% of the gain is taxed at the individual’s progressive rate.

3.5 Taxation of Individuals on Shares in Public Corporations

The same tax treatment applies as that outlined at 3.4 Taxation of Individuals on Shares in Closely Held Corporations.

4. Taxation of Inbound Investments

4.1 Application of Withholding Taxes

As a general rule, Luxembourg does not levy withholding tax on the following outbound payments made by Luxembourg corporate taxpayers to non-residents:

- ordinary interest paid at arm’s length;
- royalties;
- liquidation proceeds; and
- dividend distributions made by exempt undertakings for collective investment.

Dividends distributed by Luxembourg-resident companies are, in principle, subject to a 15% withholding tax. However, subject to the General Anti-Avoidance Rule (GAAR), a withholding tax exemption applies where dividends are paid by a fully taxable Luxembourg resident company to:

- a non-resident collective entity falling within the scope of the EU Parent–Subsidiary Directive;
- a Swiss-resident corporation subject to Swiss corporate tax and not benefiting from a Swiss tax exemption;
- a corporation or co-operative resident in an EEA country (other than an EU member state) and fully subject to an income tax comparable to Luxembourg CIT;
- a collective undertaking resident in a tax treaty jurisdiction and fully subject to an income tax comparable to Luxembourg CIT; or
- a Luxembourg permanent establishment of any of the above qualifying foreign entities.

The exemption applies where the foreign parent company holds – directly or indirectly through a tax transparent entity – at least 10% of the share capital or a participation with an acquisition cost of at least EUR1.2 million, for an uninterrupted period of at least 12 months.

A 20% withholding tax applies to directors’ fees (increased to 25% if the tax is borne by the company paying the fees). For non-resident directors whose Luxembourg-source professional income consists solely of directors’ fees not exceeding EUR100,000

per fiscal year, the withholding tax constitutes the final tax, unless the director opts for assessment.

A 10% withholding tax applies to income from independent literary or artistic activities and from professional sports activities performed in Luxembourg.

Wages are subject to withholding tax at progressive rates.

4.2 Key Treaty Jurisdictions for Inbound Investment

Luxembourg has signed a total of 94 double tax treaties, of which 88 are currently in force. Most of these treaties follow the structure and principles of the OECD Model Tax Convention.

On 7 June 2017, Luxembourg signed the Multilateral Convention (MLI) to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS). The MLI entered into force in Luxembourg on 1 August 2019. Given the required national ratification procedures and the implementation timelines set out in the MLI, the impact across treaties did not occur simultaneously. However, for many of Luxembourg's tax treaties, the principal purpose test (PPT) has been applicable since 1 January 2020.

4.3 Tax Authority Scrutiny of “Treaty Shopping” Practices

Luxembourg rarely challenges the application of tax treaties. Nonetheless, domestic legislation includes a general anti-abuse rule (GAAR), as well as the anti-abuse provision of the EU Parent–Subsidiary Directive, under which treaty or directive benefits may be denied when an arrangement is primarily designed to obtain a tax advantage.

Since 1 January 2019, Luxembourg's domestic GAAR has been aligned with the wording of ATAD 1, introducing the concept of a “non-genuine arrangement”. Under this rule, a transaction may be disregarded or recharacterised when all of the following conditions are met:

- the arrangement involves the use of one or more legal forms or legal structures;

- the main purpose, or one of the main purposes, of using such legal forms or structures is to obtain a tax benefit that defeats the object or purpose of the applicable tax law; and
- the use of such forms or structures is considered non-genuine.

In addition, since 1 January 2020, the principal purpose test (PPT) has applied to Luxembourg's tax treaties. Under the PPT, treaty benefits may be denied if it is reasonable to conclude that obtaining the benefit was one of the principal purposes of an arrangement or transaction that directly or indirectly gave rise to that advantage.

4.4 Transfer Pricing Issues for Inbound Investors

Inbound investors establishing or operating a Luxembourg corporation (LuxCo) typically face several recurring and material transfer pricing (TP) challenges. These arise from the way Luxembourg applies the arm's length principle through Articles 56 and 56bis LITL and the OECD Transfer Pricing Guidelines. Luxembourg has no integrated transfer pricing legislation.

Luxembourg places particular emphasis on the TP treatment of intra-group financing, historically one of the most common activities of inbound investors. Key challenges include:

- equity-at-risk requirements for financing companies;
- demonstrating adequate substance, risk-control functions and decision-making in Luxembourg;
- setting arm's length interest rates, especially after updated guidance on shareholder and partner current accounts; and
- meeting the operational expectations under the Circular LIR 56/1–56bis/1 of the Luxembourg tax authorities dated 27 December 2016 on financing activities.

Consistent with OECD guidance and the transfer pricing circulars, Luxembourg requires that risk follows control. Problems common to inbound structures include:

- LuxCo contractually assuming risks that it does not control;
- inadequate documentation of risk-management procedures; and
- incoherence between legal agreements and actual behaviour.

Such mismatches can drive TP adjustments or challenge the entire transaction framework. Failure to meet these expectations may lead to re-characterisation of debt as equity, adjustments or denial of deductions.

While Luxembourg historically did not impose mandatory contemporaneous documentation, the framework is tightening significantly:

- the forthcoming Master File/Local File obligations (via a draft Grand-Ducal Regulation) target Luxembourg entities of MNE groups; and
- even without these expected new rules, companies must maintain TP documentation and provide it to the tax authorities upon request (“on-demand documentation”).

4.5 Challenges to Related-Party Limited Risk Distribution Arrangements

In practice, Luxembourg does not single out limited-risk distribution arrangements for systematic challenge, but such arrangements can be reviewed and adjusted when they fail to comply with the arm’s length principle as embedded in Articles 56 and 56bis of the LITL.

4.6 Local Transfer Pricing Rules and OECD Standards

From a Luxembourg perspective, the core transfer pricing framework is fully aligned with OECD principles, but several important nuances exist in how these rules are embedded in domestic law and enforced in practice. Luxembourg does not have an integrated transfer pricing statute. Instead, TP rules result from a combination of domestic tax provisions.

Although OECD aligned, Luxembourg has locally developed expectations, particularly in the context of intra-group financing. The tax authorities issued Circular LIR 56/1–56bis/1, establishing substance, equity at risk and remuneration requirements. These

expectations go beyond OECD Guidelines by providing Luxembourg-specific safe harbour style conditions for financing activities.

Luxembourg plans to implement Master File/Local File rules consistent with OECD’s Action 13. However, the thresholds differ significantly:

- Master File – standalone entity must have \geq EUR100 million turnover or \geq EUR400 million balance sheet total; and
- Local File – required for entities belonging to MNE groups under country-by-country reporting (CbCR) rules.

These thresholds differ from other OECD countries (eg, the Netherlands and Belgium use EUR50 million).

4.7 Transfer Pricing Disputes and Mutual Agreement Procedures

Luxembourg traditionally had a very light audit environment. Historically, tax audits were uncommon, and taxpayers often relied on advance rulings for certainty rather than detailed transfer pricing documentation. However, this has changed materially.

- Creation of a dedicated tax audit division – The establishment of a new audit division means that tax audits now occur more systematically, and transfer pricing has become a routine area of review.
- Stronger enforcement focus on TP documentation – Transfer pricing documentation is now the primary compliance and risk-mitigation tool. The authorities increasingly challenge TP positions when documentation is missing, inconsistent or insufficient.
- Increased monitoring and enforcement – With the new rules, updated circulars, and reporting obligations for intra-group transactions, the Luxembourg tax authorities place greater emphasis on TP than ever before. Companies face more questions, deeper audits and higher expectations for robust economic analyses.

Luxembourg is not “aggressive” in a hostile sense, but it has clearly moved from a low-audit environment to

a modern, structured and assertive TP enforcement approach, particularly where:

- TP documentation is weak;
- financial transactions are not appropriately benchmarked; or
- the functional profile does not align with the profits booked.

In 2024, the tax authorities processed 122 mutual agreement procedure (MAP) or treaty-based dispute requests, and closed 108 cases during the year. Although the tax authorities' report does not specify how many involved transfer pricing, these figures show that MAP is actively and regularly used by Luxembourg to resolve cross-border tax disputes, including TP cases.

5. Taxation of Non-Local Corporations

5.1 Compensating Adjustments

Compensating adjustments are allowed/made when a transfer pricing claim is settled, but only in limited circumstances, and only when they reflect the arm's length principle. Luxembourg does not have a formal concept of "compensating adjustments" in domestic legislation. Neither Article 56 nor Article 56bis LITL explicitly provides for compensating adjustments, and none of the Luxembourg tax authorities' materials obtained include a rule expressly authorising them. However, Luxembourg tax practice allows adjustments if and only if they ensure that the taxable result reflects arm's length pricing, consistent with the OECD Transfer Pricing Guidelines, which have authoritative status under Article 56bis LITL.

In cross-border situations, compensating adjustments made to avoid double taxation are most commonly handled via:

- corresponding adjustments under Article 9 OECD model treaties; and
- the MAP when necessary.

These mechanisms are recognised in Luxembourg law and tax treaty practice.

When a foreign tax authority makes a unilateral upward adjustment to a taxpayer's income, the taxpayer may request the opening of a MAP before the Luxembourg tax authorities, provided that either (i) the relevant tax treaty includes a MAP article, or (ii) the case falls within the scope of the EU Directive on tax dispute-resolution mechanisms (10 October 2017). Luxembourg has also issued a 2017 Circular outlining how MAP and other treaty-based dispute-resolution mechanisms are implemented. Importantly, Luxembourg is bound by the outcome of the MAP, even if domestic statute of limitation deadlines for tax assessment adjustments have already expired.

Finally, the Luxembourg government has published a draft law creating a new procedure (Section 29c of the General Tax Law, or *Abgabenordnung* or AO) that allows taxpayers to request a bilateral or multi-lateral advance transfer pricing agreement based on Luxembourg's double tax treaties. These advanced agreements would be concluded directly between the competent authorities of the states concerned through the MAP framework under Article 25 (3) of the OECD Model Tax Convention.

5.2 Local Branches and Local Subsidiaries

In Luxembourg, local subsidiaries of non-local corporations are resident corporate taxpayers. Local branches of non-local corporations are treated the same as Luxembourg resident companies for CIT purposes. A branch is also subject to MBT if it conducts a commercial activity in the territory of Luxembourg.

5.3 Capital Gains of Non-Residents

Non-resident corporate entities are generally taxed in Luxembourg only on specific categories of Luxembourg-source capital gains – namely gains from Luxembourg immovable property and short-term gains (within six months) on disposals of substantial participations exceeding 10%. These rules also apply to liquidation proceeds and redemption payments treated as capital gains.

Additionally, non-resident capital gains tax may arise if the shareholder was a Luxembourg resident for over 15 years and became non-resident less than five years before disposing of a Luxembourg participation.

5.4 Tax Implications of Change of Control

Luxembourg tax law does not impose a standalone change of control tax, nor does a change in the ownership of a company's parent entities – no matter how high in the chain – trigger any Luxembourg tax or registration duty on the Luxembourg entity itself. There is:

- no transfer tax on the sale of shares in a Luxembourg company (except where the company is tax-transparent and owns Luxembourg real estate, where the transaction can be assimilated to a direct transfer of real estate and may trigger registration duties or tax consequences in Luxembourg);
- no stamp duty or capital duty on indirect transfers; and
- no tax triggered simply because the ultimate beneficial owner changes.

This applies equally where the disposal occurs far up the chain in a foreign (non-Luxembourg) holding structure.

No TP or exit tax is triggered solely due to a shareholder change. Exit taxation applies only if assets or functions are transferred out of Luxembourg – not when shares are transferred.

While not “change of control taxes”, Luxembourg applies abuse of law and *Mantelkauf* doctrines to prevent the use of loss-making companies where they are effectively acquired for their tax attributes. These rules may deny loss being carried forward after a change of control combined with a change of activity. This is not a tax on the transfer itself, but a restriction on using tax attributes following certain reorganisations.

5.5 Formula-Based Income Attribution

Luxembourg tax law does not provide any specific rules – beyond the general arm's length principle governing transactions between associated enterprises – for determining the taxable income of foreign-owned Luxembourg affiliates engaged in the sale of goods or the provision of services.

5.6 Deductibility of Intra-Group Management and Administrative Charges

In Luxembourg, there is no special statutory provision governing the deductibility of payments made by local

affiliates to foreign group companies for management or administrative services. Instead, deductibility is assessed under the general arm's length principle, which is firmly embedded in Luxembourg tax law and governs all intra-group transactions.

A Luxembourg company may deduct management or administrative fees paid to a foreign affiliate provided that:

- a real service is performed (ie, the service provides economic or commercial value to the Luxembourg entity);
- the amount charged is arm's length, demonstrated through –
 - (a) appropriate transfer pricing documentation,
 - (b) allocation keys reflecting actual functions performed, and
 - (c) evidence that no duplication of services exists; and
- the expense is incurred wholly and exclusively for business purposes, consistent with general deductibility rules.

5.7 Restraints on Related-Party Borrowing

Related-party borrowings by foreign-owned local affiliates paid to non-local affiliates are subject to the various interest deduction rules described under **2.5 Deduction of Interest** and the general deductibility rules.

6. Taxation of Foreign Income of Local Corporations

6.1 Foreign Income Exemptions

Luxembourg-resident companies are subject to corporate income tax (CIT) on their worldwide income, meaning that foreign-source income is not automatically exempt. Double tax treaties concluded by Luxembourg may, however, prevent Luxembourg from taxing foreign-source income. If not exempt under a double tax treaty, foreign-source income of local corporations is included in the Luxembourg taxable base and thus subject to CIT.

6.2 Non-Deductible Local Expenses

Luxembourg applies a matching principle: expenses directly connected to exempt income are not tax deductible. So, if foreign income is exempt, local expenses that are directly and economically linked to that exempt foreign income are non-deductible in Luxembourg.

This applies particularly to exempt foreign source income, such as:

- profits attributable to a foreign permanent establishment (PE) exempt under a double tax treaty;
- dividends or gains exempt under the participation exemption; and
- other foreign income benefiting from a specific exemption.

Examples of non-deductible expenses when they are directly linked to exempt income include:

- impairments on a qualifying exempt participation;
- interest on loans used to acquire an exempt participation; and
- expenses incurred solely to earn exempt foreign source profits.

6.3 Dividends From Foreign Subsidiaries

Dividends received by a Luxembourg tax resident are subject to CIT and MBT, unless the participation exemption applies.

Under the participation exemption, dividends received from a foreign subsidiary are exempt if the following conditions are met.

- The distributing subsidiary must be:
 - (a) an EU company covered by the Parent–Subsidiary Directive;
 - (b) a fully taxable Luxembourg company; or
 - (c) a non-resident joint-stock company fully liable to a tax comparable to Luxembourg CIT (generally at least 8% as of tax year 2025).
- The Luxembourg parent company must be a fully taxable resident company (or qualifying PE).
- The participation must satisfy a minimum threshold of:

(a) at least 10% of the subsidiary's share capital; or

(b) acquisition cost of at least EUR1.2 million for dividend exemption.

- Minimum holding period – The parent must hold or commit to hold the participation for at least 12 months.

If these conditions are met, the dividend is fully exempt from Luxembourg corporate income tax.

If dividends received by a Luxembourg company do not meet the conditions for the full participation exemption, 50% of the dividend is nevertheless exempt from corporate income tax under Luxembourg's domestic half-income method, provided the income is paid by:

- a fully taxable Luxembourg resident company;
- a company resident in a state with which Luxembourg has concluded a double tax treaty and which is fully liable to a tax corresponding to Luxembourg CIT; or
- a company resident in an EU member state covered by Article 2 of the EU Parent–Subsidiary Directive (Directive 2011/96/EU).

6.4 Taxation of Intangibles Developed by Local Corporations

Intangibles developed by a Luxembourg company cannot generally be used by foreign subsidiaries without Luxembourg tax consequences. Luxembourg strictly applies the arm's length principle to transactions between related parties, including the licensing or transfer of intangibles.

If a Luxembourg corporation develops an intangible (eg, IP, software, trade mark, algorithm) and a foreign subsidiary uses it, the Luxembourg entity must:

- charge an arm's length royalty;
- reflect an arm's length buy in payment (if the intangible is transferred); or
- ensure an arm's length cost-sharing arrangement.

Otherwise, Luxembourg tax authorities can make a transfer pricing adjustment to increase taxable income.

If the foreign subsidiary pays a royalty, that royalty is taxable in Luxembourg as ordinary income.

If the intangible itself (not just its use) is transferred from Luxembourg to a foreign subsidiary – eg, by migration, business restructuring, or asset transfer – Luxembourg typically imposes exit taxation, unless an exemption or deferral rule is available.

If the intangible is used without compensation (free transfer or free use), Luxembourg tax authorities may:

- impute a deemed royalty;
- recharacterise the transaction; or
- treat the benefit as a hidden distribution.

Hidden profit distributions can be subject to 15% WHT if the recipient is not eligible for an exemption or treaty relief.

Under the IP regime, net income from qualifying IP assets that meet the eligibility criteria may benefit from an 80% exemption from CIT and MBT and qualifying IP assets may benefit from a 100% exemption from NWT.

6.5 Controlled Foreign Corporation-Type Rules

Local corporations can be taxed on the income of non-local subsidiaries as earned under CFC-type rules but only in very limited circumstances.

Luxembourg implemented CFC rules through the EU ATAD 1 Directive. These rules apply only when:

- a controlled foreign company (subsidiary or permanent establishment) is essentially set up to obtain a tax advantage; and
- the income of the CFC is linked to significant functions performed in Luxembourg by the Luxembourg parent.

Under these conditions, Luxembourg must tax the undistributed net income of the CFC in proportion to the Luxembourg company's ownership or control.

Luxembourg applies the “significant people functions” test, meaning that CFC income is only attrib-

uted to Luxembourg when the value-creating functions connected with that income are performed in Luxembourg. If the foreign subsidiary conducts its own activities and the Luxembourg entity does not perform significant functions (properly documented), no CFC inclusion occurs.

Luxembourg also applies two statutory safe harbours:

- CFC accounting profits <EUR750,000; or
- profits <10% of operating costs.

In these cases, the Luxembourg CFC rules do not apply.

Luxembourg's CFC rules may apply to foreign branches, but the outcome depends on whether Luxembourg exempts or taxes branch income under applicable double tax treaties.

6.6 The Substance of Non-Local Affiliates

Luxembourg's domestic general anti-abuse rule (GAAR) applies equally when assessing the substance and arrangements of non-resident affiliates. Since its amendment on 1 January 2019, the GAAR has been aligned with the wording of ATAD 1 and incorporates the concept of a “non-genuine arrangement”. Under this rule, a transaction or structure may be ignored or recharacterised if:

- it involves the use of one or more legal forms or legal arrangements;
- obtaining a tax advantage is the main purpose, or one of the main purposes, of using such form(s) or arrangement(s) in a manner contrary to the object or purpose of the tax law; and
- the arrangement is considered non-genuine because it does not reflect economic reality.

In addition, since 1 January 2020, the Principal Purpose Test (PPT) has applied to Luxembourg's tax treaties. Under the PPT, treaty benefits may be denied whenever it is reasonable to conclude that one of the principal purposes of an arrangement or transaction – whether directly or indirectly – was to obtain those treaty benefits.

6.7 The Sale of Shares in Non-Local Affiliates

Capital gains derived by a Luxembourg taxable resident company from shares in a subsidiary company are subject to CIT and MBT, unless the domestic participation exemption applies (see 2.7 Capital Gains).

7. Anti-Avoidance Provisions

7.1 Overarching Provisions

Luxembourg's tax framework incorporates multiple layers of anti-avoidance rules operating at the domestic, EU and treaty levels, complemented by long-standing substance-based doctrines applied through administrative practice and case law.

At the domestic level, Luxembourg has long applied a general anti-abuse rule (GAAR) empowering the tax authorities to disregard arrangements that are purely artificial or whose main purpose is the improper obtainment of a tax advantage. Since 1 January 2019, the domestic GAAR has been aligned with the ATAD 1, expressly incorporating the concept of a "non-genuine arrangement". Under this standard, tax benefits may be denied where legal forms or arrangements are used with the main (or one of the main) purposes of securing a tax advantage that is inconsistent with the object or purpose of the applicable tax rules.

These principles are further reinforced by Luxembourg's substance-over-form doctrine, under which the tax analysis focuses on the economic reality of a structure or transaction rather than its legal form. This doctrine is embedded in Luxembourg legislation and case law and remains a central interpretative tool for the tax authorities and courts.

At the treaty level, since 1 January 2020, Luxembourg's double tax treaties include the Principal Purpose Test (PPT). The PPT allows treaty benefits to be denied where it is reasonable to conclude that one of the principal purposes of an arrangement or transaction was to obtain those benefits.

In addition, Luxembourg applies the full EU anti-hybrid mismatch rules, which deny tax deductions or other advantages in circumstances involving double deduc-

tions or deduction-without-inclusion outcomes, ensuring consistency with the ATAD 2 framework.

8. Audit Cycles

8.1 Regular Routine Audit Cycle

Luxembourg does not operate a universal, time-based routine audit cycle (eg, "every three years"). Instead, the Luxembourg tax authorities follow a risk-based, thematic and event-driven approach. In practice, companies can go many years without an on-site audit – or be selected sooner if their profile or filings raise risk indicators.

For CIT, MBT and NWT, taxpayers must file an annual tax return, which forms the basis for determining taxable income and the resulting tax liability. Following submission, the Luxembourg tax authorities generally issue a preliminary tax assessment reflecting the return as filed.

The authorities retain the right to issue a revised assessment within a five-year statute of limitations if they disagree with the preliminary assessment. This statute of limitations is extended to ten years where the tax return is found to be incomplete or incorrect, even absent fraudulent intent.

Luxembourg also maintains specialised audit departments empowered to conduct on-site tax audits. The *Service de révision* is responsible for examining taxpayers' accounts and supporting documentation and for preparing audit reports that may propose adjustments to the taxpayer's tax position.

9. BEPS

9.1 Adoption of BEPS Recommendations

Luxembourg has implemented the majority of the OECD BEPS Action Plan recommendations, several of which have been incorporated through EU directives. These include:

- Action 2 – anti-hybrid mismatch rules;
- Action 3 – controlled foreign company (CFC) rules;
- Action 4 – interest deduction limitation rules;

- Action 5 – revised intellectual property (IP) box regime;
- Action 6 – treaty anti-abuse measures;
- Actions 8–10 – strengthened transfer pricing rules aligned with OECD guidance;
- Action 13 – country-by-country reporting (CbCR); and
- Action 15 – implementation of the Multilateral Instrument (MLI).

9.2 Government Policy and Objectives Approach

Luxembourg has consistently demonstrated its commitment to curbing harmful tax practices and fully supports the OECD BEPS initiative, which forms the basis for ATAD 1, ATAD 2 and the Multilateral Instrument (MLI).

In line with international developments, Luxembourg transposed the EU Pillar Two Directive on global minimum taxation in December 2023. As a result, Pillar Two is now in force, with the Income Inclusion Rule (IIR) and the Luxembourg Qualified Domestic Minimum Top-Up Tax (QDMTT) applying for fiscal years beginning on or after 31 December 2023, and the Undertaxed Profits Rule (UTPR) applying for fiscal years beginning on or after 31 December 2024.

The Luxembourg legislator has also integrated the OECD administrative guidance on Pillar Two. Luxembourg treats both existing and future OECD guidance as a relevant interpretative source for applying the rules, and incorporates additional guidance into domestic law where appropriate.

On 17 December 2025, the Luxembourg Parliament enacted the law on the exchange of information with respect to “top-up tax information return” or GloBE Information Return (GIR), which transposes Directive (EU) 2025/872, also called DAC9. The DAC9 Law amends the law of 22 December 2023 (the “Pillar Two Law”) implementing Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the European Union (the “Pillar Two Directive”). The newly adopted DAC9 law aims to facilitate compliance with the filing obligations of companies

under the Pillar Two Directive and to align Luxembourg rules with recent OECD Administrative Guidance.

In principle, the GIR must be filed with the Luxembourg direct tax authorities no later than 15 months after the last day of the reportable fiscal year. Notwithstanding this principle, during the transitional period, the deadline for submitting the returns has been extended and the first Luxembourg GIR will be due by 30 June 2026.

Pillar One has not yet been implemented in Luxembourg. Luxembourg, like most EU member states, supports an eventual multilateral solution but will only proceed once there is an agreed international legal instrument.

9.3 International Tax

International tax remains highly visible in Luxembourg due to the EU Code of Conduct processes, the OECD BEPS monitoring, periodic political debates about “tax fairness”, and the historical LuxLeaks context.

This visibility has reinforced Luxembourg’s commitment to rigorous implementation of BEPS and EU tax directives. Luxembourg is now fully aligned with OECD and EU international tax reforms, including BEPS, ATAD 1 and 2, the MLI, and the global minimum tax (Pillar Two). The government publicly positions Luxembourg as a co-operative, transparent and compliant jurisdiction and has consistently rejected the notion of harmful tax competition. The objective is to preserve Luxembourg’s competitiveness while ensuring compliance with global standards in order to avoid blacklisting, safeguard treaty networks and maintain investor confidence.

9.4 Competitive Tax Policy Objectives

Luxembourg balances competitiveness with compliance by maintaining flexible, business-friendly regulations and administrative procedures and by preserving the favourable tax regimes, the arm’s length principles and predictable administrative practices.

9.5 The Competitive Tax System

Luxembourg offers a stable, competitive and internationally compliant tax framework. However, certain features of its system are inherently more exposed

to external scrutiny, policy pressure and BEPS-driven reform than others.

- Cross-border intra-group financing structures – Historically one of Luxembourg’s most prominent offerings, intra-group financing arrangements have come under intense BEPS, ATAD and state aid scrutiny, especially following the EU investigations and the adoption of strict transfer pricing rules.
- Use of Luxembourg holding companies (SOPARFIs) – While the participation exemption regime itself is solid and fully BEPS aligned, cross-border profit flows (dividends, interest and royalties) have been specifically flagged by the European Commission as part of broader concerns around aggressive tax planning. There is an increased need for demonstrable economic substance and beneficial ownership.
- Advanced tax rulings – State-aid challenges, mainly in the context of tax rulings, have placed selectivity and arm’s length compliance under deep inspection. Luxembourg has adapted its practices, but the area remains more exposed than routine tax provisions.

9.6 Hybrid Instruments and BEPS Implementation

Luxembourg implemented EU Directive 2017/952 (ATAD 2), which expands the anti-hybrid mismatch rules already introduced under ATAD 1. Whereas the initial ATAD rules applied only to intra-EU hybrid mismatches, ATAD 2 significantly extends the scope to non-EU (third-country) situations.

The Luxembourg hybrid mismatch rules follow OECD BEPS Action 2 recommendations and target a wide range of hybrid mismatch scenarios, including:

- hybrid financial instruments (equity in one jurisdiction, debt in another);
- hybrid entities (transparent versus opaque treatment);
- hybrid permanent establishments;
- imported hybrid mismatches (mismatches arising outside Luxembourg but imported via deductions);
- hybrid transfers;
- dual-resident entities; and

- reverse hybrids (transparent in Luxembourg, opaque to investors).

Hybrid mismatches arise when entities or instruments are treated differently across jurisdictions (subject, where relevant to an associated enterprise test), leading to outcomes such as double deductions or deductions without inclusion. ATAD 2 requires EU member states – such as Luxembourg – to neutralise these mismatches either by denying deductions or by including otherwise untaxed income.

Luxembourg’s implementation strictly adheres to ATAD 2 minimum standards, without adding extra layers of complexity, but opting into all permitted exemptions or safe harbours to avoid unintended double taxation.

9.7 Interest Deductibility and Territorial Tax Regime

Luxembourg does not apply a territorial CIT system; it applies worldwide taxation but with exemption, notably for foreign permanent establishment income, via treaty or domestic rules.

9.8 Controlled Foreign Corporation Reform

Since Luxembourg does not operate a full territorial system, the CFC rules are not impacted.

9.9 Anti-Avoidance Rules

Please refer to 7.1 Overarching Provisions.

9.10 Transfer Pricing and IP Taxation

Please refer to 2.2 Technology Investments.

9.11 Country-by-Country Reporting and Transparency Provisions

Luxembourg has positioned itself as a highly compliant and transparent jurisdiction in line with OECD BEPS standards and EU transparency initiatives. The country has implemented multiple layers of mandatory reporting and disclosure obligations. Transparency is a central policy objective and shapes Luxembourg’s international tax reputation.

Country-by-Country Reporting (OECD Action 13)

Luxembourg has implemented the OECD BEPS CbCR standard into domestic law via the law of 23 December 2016.

- Applies to multinational groups with EUR750 million+ consolidated turnover.
- Every Luxembourg constituent entity must submit an annual CbCR notification identifying which entity in the group files the report.
- If the Luxembourg entity is the Ultimate Parent Entity or designated reporting entity, it must file the full CbC report with the Luxembourg tax authorities.
- The report must disclose aggregated financial and activity-based data per jurisdiction: revenues, profits, taxes paid, number of employees, tangible assets, etc.

These reports are not public and are exchanged between tax authorities under automatic exchange of information mechanisms.

EU Public Country-by-Country Reporting (Public CbCR)

Luxembourg enacted the EU Public CbCR Directive in August 2023. This is a major new transparency layer distinct from standard OECD CbCR and applicable from 2024.

- Applies, with some exclusions, to multinational groups with a total consolidated revenue of EUR750 million to report if their ultimate parent company is located in the EU or if the ultimate parent company is not in the EU but has EU subsidiaries or branches.
- The public report must disclose revenues, profits or losses before tax, corporate income tax paid and accrued, employees, accumulated earnings, business activities, by jurisdiction.
- The publication must be on the Luxembourg Trade and Companies Register and the undertaking's corporate website (if not exempt), with mandatory accessibility for at least five years.
- Luxembourg allows up to five years' temporary deferral of commercially sensitive information.

DAC6 – Mandatory Disclosure of Cross-Border Arrangements

Luxembourg implemented DAC6, which requires intermediaries (or, in some cases, taxpayers) to report certain cross-border arrangements that present certain indicators of potential tax avoidance (hallmarks).

DAC6 applies to both:

- intermediaries (tax advisers, lawyers, accountants, banks, service providers); and
- taxpayers (only if no intermediary is involved or if intermediaries are exempt through legal professional privilege).

DAC7 – Reporting for Digital Platform Operators

Luxembourg transposed DAC7, imposing reporting obligations on digital platform operators facilitating:

- the sale of goods;
- rental of immovable property;
- rental of means of transport; and
- personal services.

Operators must identify and report sellers' income and activity details. This expands transparency beyond corporate taxation into the platform economy.

DAC8 – Crypto-Asset Reporting Framework (CARF)

Luxembourg has also implemented the DAC8 rules, which incorporate the OECD Crypto-Asset Reporting Framework (CARF). This introduces:

- obligations for crypto-asset service providers to identify users; and
- obligations to report crypto transactions, gains and transfers to tax authorities across the EU.

DAC8 extends Luxembourg's transparency to the fast-growing digital asset sector.

9.12 Digital Economy Businesses

Luxembourg has not introduced unilateral digital specific tax rules. There is currently:

- no digital services tax (DST); and

- no special tax on digital platforms operating from abroad.

Luxembourg supports an OECD/Pillar One multilateral solution rather than unilateral measures.

9.13 Approach to Digital Services Taxation

Luxembourg strongly rejects unilateral DSTs due to risks of fragmentation and double taxation. Luxembourg will implement Pillar One only when a multilateral treaty-based solution is finalised.

9.14 Offshore IP Provisions

Luxembourg has not enacted any specific tax rules aimed at taxing offshore intellectual property used within its territory.

Trends and Developments

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ATOZ Tax Advisers is a leading independent tax advisory firm offering a comprehensive range of direct and indirect tax solutions, as well as transfer pricing, corporate finance, tax litigation and ESG services, to local and international clients. Founded in 2004, the firm operates offices in Luxembourg, Morocco, the Middle East and the United Kingdom. In addition, in 2005, ATOZ was amongst the founding members of

the Taxand network, the world's largest independent organisation of tax experts, with more than 700 tax partners and over 3,000 tax advisers in 51 countries. Over 20 years of long-standing relationships allow the firm to assemble bespoke, multi-jurisdictional teams, delivering seamless and high-quality tax advice tailored to clients' needs.

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Marie Bentley is ATOZ's chief knowledge officer, having joined the firm in 2017. Over the years, Marie has gained extensive experience in Luxembourg, Belgian and international tax law, both in advisory

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Introduction

The year 2025 marked a significant phase of legislative and policy reform in Luxembourg, reflecting the country's ambition to strengthen its position as a leading European financial centre while supporting entrepreneurship, innovation and international tax compliance. Against a backdrop of increasing regulatory complexity and heightened scrutiny at EU and OECD levels, Luxembourg pursued targeted reforms across the tax, fund and corporate sectors. These developments highlight a co-ordinated governmental approach to competitiveness, transparency and alignment with global standards. For market participants, the past year brought new opportunities but also new compliance expectations that require close attention.

This chapter of the guide reviews the most notable tax-related reforms Luxembourg adopted or clarified during 2025. It focuses on the following:

- modernisation of the carried interest tax regime;
- introduction of a new start-up tax credit to stimulate domestic innovation;
- implementation of the DAC9 framework affecting Pillar Two reporting obligations; and
- clarifications to the reverse hybrid mismatch carve-out applicable to collective investment vehicles (CIVs).

Collectively, these measures demonstrate Luxembourg's efforts to balance competitiveness with international conformity, while providing businesses and investors with greater legal certainty.

Modernisation of Luxembourg's Carried Interest Framework

Reinforcing Luxembourg's competitiveness in alternative asset management

Luxembourg's reform of the carried interest tax regime, adopted in January 2026 and prepared throughout 2025, represents one of the most strategically important developments for the asset management industry. The carried interest rules, originally enacted in 2013, had been under-appreciated due to interpretative uncertainties and technical limitations that no longer reflected the modern structuring of alternative investment funds (AIFs).

The new carried interest reform provides clarity and modernises the Luxembourg tax regime applicable to carried interest received by individual managers of alternative investment fund managers (AIFMs). It creates a legal framework that is favourable to AIFs and digital assets, supporting Luxembourg's ambition to attract and retain senior fund professionals. These updates are aligned with the objectives expressed in the 2023–28 coalition agreement of the Luxembourg government, which emphasises strengthening Luxembourg's competitive edge as a fund domicile. In practice, the confirmed and broadened tax treatment provides greater predictability for managers involved in private equity, real estate, infrastructure, venture capital and increasingly digital asset strategies.

Confirmation of tax classification

A central feature of the reform is the confirmation that carried interest received by eligible individuals continues to qualify as miscellaneous income (speculative gains) rather than employment or professional income. This classification preserves the favourable tax treatment applied to genuine carried interest arrangements and avoids recharacterisation risks that could undermine Luxembourg's attractiveness. The confirmation also aligns tax treatment with market expectations and existing fund industry interpretations.

Expansion of eligible beneficiaries

The previous carried interest tax regime only applied to employees of AIFMs or of AIF management companies. Employees of a fund's affiliated companies other than the AIFM or the AIF management companies, or individuals who are not employed as such, therefore do not fall within the scope of the regime. The new regime broadens eligibility to non-employees who play an active role in value creation within AIF structures. These may include:

- independent board members;
- partners of management entities; and
- employees of affiliated advisory firms.

The expansion aims to reflect the economic reality of modern fund structures, where value generation is often spread across multiple entities rather than concentrated exclusively within the management company. At the same time, the law expressly excludes

individuals in purely administrative roles to prevent using carried interest as disguised remuneration.

Clarified distinction between carried interest types

The reform provides essential clarity on two distinct categories of carried interest, as follows.

Contractual (non-invested) carried interest

Contractual carried interest is granted without an underlying capital contribution to the fund's vehicle. In this case, the manager is not required to subscribe to a participation in the investment fund to be eligible for the carried interest. Carried interest entitlements are granted to the manager for no consideration, are not materialised by shares and are not intimately linked to an investment in the AIF. However, holders of contractual carried interest entitlements have the right to hold, in the same way as "ordinary" investors ("limited partners"), a participation in the AIF – but they are not required to do so.

From 2026 onwards, contractual carried interest benefits from a permanent quarter rate taxation (ie, 25% of the progressive income tax rate – marginal rate of 45.78%). Previously, this favourable rate was available only to impatriates, resulting in inconsistent treatment between similarly situated managers. The reform eliminates this asymmetry and reaffirms Luxembourg's desire for a level playing field.

Invested carried interest

The Luxembourg invested carried interest regime targets carried interest received either on the basis of carried interest rights materialised by shares in the AIF that yield carry interest or on the basis of a carried interest that is intimately linked to an ordinary direct or indirect investment in the AIF. This relates to the manager's participation in the fund (either via ordinary investment or carry shares).

- Carry interest intimately linked to an ordinary direct or indirect investment in the AIF refers to a contractual entitlement to carried interest, for which the manager is mandatorily required to take an ordinary direct or indirect stake in the AIF. In this case, the investment goes hand in hand with the attribution of the carried interest.

- Carried interest rights materialised by shares that yield carry interest refers to the case where the manager is offered the opportunity to acquire such rights for consideration through an investment (commonly referred to as "carry shares"), usually via an ad hoc vehicle (eg, a Luxembourg special limited partnership or a foreign law partnership) irrespective of an investment as an ordinary investor in the AIF.

Taxation of the invested carried interest depends on the holding period: when the interval between the acquisition or constitution of these carried interest investments and their realisation exceeds six months, the speculative profit resulting from the carried interest does not constitute a taxable income, unless the shareholding in the AIF represents a significant shareholding in a tax opaque AIF. A shareholding is considered significant if it directly or indirectly represents more than 10% of the AIF's capital (which is very rare in practice). In this case, capital gains are taxed at half the progressive rate of income tax (marginal rate of 22.89%). Investments realised within six months are taxable (progressive income tax rate – marginal rate of 45.78%).

The reform reinforces that only genuine carried interest benefits from this treatment. As a result, any income that does not reflect entrepreneurial risk follows standard tax rules.

In addition, any income from other investments is subject to the common tax regime applicable to investment income (eg, dividends, interest, capital gains) and the transparency of the AIF will not be disregarded. This includes:

- ordinary direct or indirect investments in the AIF to which a contractual entitlement to carried interest is intimately linked and which are mandatorily subscribed to by the carry holder; and
- any ordinary shares freely subscribed to by the carry holder.

Tax transparency exception

To ensure consistent treatment across different fund structures, the reform introduces a rule disregarding the tax transparency of AIFs solely for the application

of the carried interest regime. This measure removes distortions stemming from whether the underlying vehicle is legally opaque or transparent. As a result, the analysis focuses on the economic nature of carried interest rather than the legal form of the AIF.

Removal of the capital return condition

The prior requirement that investors must first fully recover their capital before any carried interest could accrue has been removed. This change is particularly relevant for deal-by-deal carry arrangements, increasingly common in private equity and venture capital, where returns are assessed at the transaction level rather than on a whole of fund basis.

Expected market impact

Overall, the reformed regime provides clarity, flexibility and international competitiveness. It supports Luxembourg's position as a jurisdiction of choice for fund sponsors seeking to attract high value talent and establish pan-European management platforms. At the same time, it introduces safeguards that reduce the risk of misusing carried interest as disguised salary, thus increasing the regime's credibility with international tax authorities.

Introduction of the Start-Up Tax Credit (Effective 2026)

Encouraging early-stage innovation

A second major development is the creation of a Start-Up Tax Credit, introduced by legislation adopted in late 2025 and applicable from tax year 2026. Luxembourg's objective is to diversify its economic model, support innovation and attract private capital to early-stage companies. The measure complements existing regimes such as the impatriation allowance and profit participation rules, and responds to long-standing calls for a more structured state-backed incentive for individual investors.

Eligible investors

To access the new tax credit, the investor must:

- be a tax resident or assimilated non-resident individual;
- subscribe and fully pay new shares or equivalent equity instruments; and
- maintain the investment for at least three years.

Importantly, employees and founders of the start-up are excluded from claiming the credit, avoiding situations where the incentive could be used to reward insiders rather than attract new external capital.

Eligible investment structures

The regime applies to investments made:

- directly into share capital; and
- through tax transparent partnerships such as SCS or SCSp.

However, the credit is denied where the investment is made through a business activity or professional enterprise, so that the incentive remains focused on private individuals contributing risk capital.

Qualifying start-up entities

To qualify, a start-up must:

- be a resident collective entity or a PE of a collective entity established in an EEA member state, subject to Luxembourg corporate tax or subject to an equivalent tax regime;
- have fewer than 50 employees;
- hold assets or turnover of \leq EUR10 million;
- be less than five years old;
- carry on an innovative activity – an activity is considered to be innovative when at least two individuals work on a full-time basis for the start-up entity and the start-up entity has incurred research and development (R&D) expenses representing at least 15% of its total operating expenses during at least one of the three financial years preceding the tax year for which the start-up tax credit is claimed;
- not be active in excluded sectors (including audit, accounting or certain non-innovative activities); and
- not be a company in difficulty under EU law.

These conditions ensure that the incentive targets genuinely innovative, high growth potential companies.

Eligible investment amount and credit computation

The investment in the share capital of the start-up entity must be:

- at least EUR10,000;
- below 30% ownership per investor; and
- within a cumulative cap of EUR1.5 million per start-up (only counting eligible investors).

The Start-Up Tax Credit equals 20% of the eligible investment, capped at EUR100,000 per investor per year (with potential carry forward).

Implications and expected impact

Although the rules are strict, the credit represents a meaningful step towards enhancing Luxembourg's start-up ecosystem. It should encourage early-stage equity financing, attract new angel investors, and complement emerging support structures for entrepreneurs. The measure fits into a broader governmental strategy to diversify the economy and stimulate innovation-driven growth. Furthermore, in addition to the specific tax regime for impatriates as well as the profit participation regime already in place, the government announced the introduction of a new tax regime for stock option plans granted to employees of start-up companies.

DAC9 and Pillar Two Reporting: Increased Compliance Expectations

Implementation of the DAC9 framework

On 17 December 2025, Luxembourg adopted the DAC9 Law, which aligns domestic rules with EU Directive 2025/872 and complements the existing Pillar Two Law enacted in late 2023. DAC9 introduces a dedicated framework for the GloBE Information Return (GIR), a standardised OECD aligned reporting obligation for multinational enterprise (MNE) groups and large-scale domestic groups (LSDGs). This development reinforces Luxembourg's commitment to transparency and international co-operation, reflecting an overall EU-wide trend towards harmonised reporting of effective tax rates and top-up tax liabilities.

Standardised GloBE Information Return (GIR)

Under DAC9:

- the GIR must be prepared using a standardised template;
- reporting entities must disclose the jurisdictions to which the GIR must be automatically exchanged; and

- the GIR complements, rather than replaces, domestic filings under the Income Inclusion Rule (IIR), Undertaxed Profits Rule (UTPR) or Qualified Domestic Top-Up Tax (QDMTT).

In other words, even where a centralised GIR is filed by an ultimate parent entity abroad, Luxembourg constituent entities may still have separate tax payment obligations domestically.

Local versus centralised filing

Luxembourg entities are exempt from local filing only if:

- the UPE or designated filing entity submits a compliant GIR in a jurisdiction with a qualifying competent authority agreement; and
- the Luxembourg entity notifies the Luxembourg direct tax authorities accordingly.

Should exchange of information fail, the entity must file locally within one month of notification. This rule ensures that Luxembourg ultimately receives the information required to monitor Pillar Two compliance.

Transitional simplified reporting

For fiscal years starting before 1 January 2029 and ending before 1 July 2030, Luxembourg entities may elect simplified jurisdictional reporting for countries where no top-up tax arises. This temporary simplification aims to ease the transition to full Pillar Two implementation.

Automatic exchange of information

Information contained in the GIR will be exchanged automatically following a structured "dissemination" approach based on jurisdictions' respective taxing rights. The first exchanges, covering tax years starting on or after 31 December 2023, will occur on 31 December 2026.

Rectification and penalty regimes

DAC9 introduces detailed procedures for correcting manifest errors and establishes penalty thresholds – including sanctions up to EUR300,000 for misuse of exemptions. This underscores the importance of accurate reporting and proactive compliance, par-

ticularly for large multinational groups with complex cross-border structures.

New LTA Circular Clarifying the Reverse Hybrid Mismatch Carve-Out for Collective Investment Vehicles

Background to the reverse hybrid rule

Luxembourg's reverse hybrid mismatch rules, introduced under ATAD 2 and effective since tax year 2022, may treat otherwise tax transparent entities as taxable when certain foreign investors treat the entity as opaque. This rule aims to address hybrid mismatches caused by divergent classifications between jurisdictions. Given Luxembourg's large investment fund sector, clarity on how these rules apply to fund structures is essential.

In August 2025, the Luxembourg direct tax authorities issued a dedicated circular providing detailed guidance on which investment vehicles qualify as collective investment vehicles (CIVs) under Article 168quater, paragraph 2 LITL. CIVs benefit from a full carve-out from the reverse hybrid mismatch rule.

Automatic qualification of UCIs, SIFs and RAIFs

The circular confirms that the following are automatically treated as CIVs:

- UCIs (including UCITS and non-UCITS funds);
- SIFs; and
- RAIFs.

This presumption reflects the legislator's intention and provides welcome certainty for the vast majority of regulated and semi-regulated Luxembourg fund structures.

CIV qualification for other investment vehicles

For investment vehicles that are not UCIs, SIFs or RAIFs, the circular clarifies the following three key conditions.

Broad investor participation

The fund must be marketed to multiple unrelated investors. The analysis considers:

- the number of investors;
- relationships between investors;

- beneficial ownership; and
- master feeder structures.

A single investor at launch (up to 36 months) does not automatically disqualify the fund.

Diversified securities portfolio

Diversification must be assessed based on investment policy and market risk exposure. A fund is not considered diversified if it (for example):

- invests more than 30% in securities issued by the same issuer without justification; or
- uses derivatives without appropriate diversification.

Investor protection rules

The fund must be subject to meaningful investor protection regulation in its jurisdiction of establishment. Luxembourg supervised funds (CSSF regulated UCIs or AIFs managed by authorised AIFMs) are presumed to satisfy this requirement.

Practical implications

The circular increases legal certainty for fund managers structuring vehicles that fall outside traditional regulatory categories – particularly bespoke AIFs and privately placed investment partnerships. It also ensures that Luxembourg's implementation of ATAD 2 remains aligned with international tax policy while protecting the neutrality of the fund sector.

Conclusion: A Transformative Year With Strategic Long-Term Effects

2025 was a year of substantial legislative and regulatory advancement in Luxembourg. The reforms introduced or clarified during the year – spanning carried interest, start-up incentives, Pillar Two reporting and hybrid mismatch rules – reflect the country's strategic commitment to maintaining a competitive yet compliant environment for investment and business.

For asset managers, new opportunities arise from the improved carried interest regime and clearer hybrid mismatch rules. For early-stage investors and entrepreneurs, the Start-Up Tax Credit provides a meaningful incentive to fuel national innovation. For large multinational groups, DAC9 marks a shift towards

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deeper transparency and alignment with global minimum taxation frameworks.

Across these developments, the common themes are legal certainty, competitiveness and adaptation to international standards. Businesses and investors operating in Luxembourg in 2026 and beyond will benefit from these clarifications – but must also continue to monitor practical implementation, administrative guidance and emerging EU or OECD initiatives that may further shape the landscape.

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