Introduction

Corporate income is subject to corporate income tax, increased by a surcharge for the employment fund and a municipal business tax. Companies are also subject to net worth tax. Social security contributions must be paid by employers. A VAT system applies.

The currency is the euro (EUR).

1. Corporate Income Tax

1.1. Type of tax system

The corporate tax system of Luxembourg is, in principle, classical. This means that the tax is levied on corporate income and that distributed profits are again taxed in the hands of the shareholders. For resident individual shareholders, a 50% exemption for dividends applies in many cases. For corporate shareholders, either a 50% exemption or a 100% participation exemption (see 2.2.) may apply. Dividends and other profit distributions are not deductible in computing taxable income of the company.

1.2. Taxable persons

Corporate income tax is levied on the entities listed in the law as corporate entities for tax purposes. These include corporations, limited liability companies, partnerships limited by shares, foundations, cooperative entities and non-profit organizations.

The income of partnerships, except for partnerships limited by shares, is first determined globally at the partnership level and then taxed at the level of the partners. Each partner is deemed to carry on his own business in proportion to his share in the partnership. This principle of fiscal transparency also applies for net wealth tax purposes. Only the municipal business tax is based directly on the profits determined at the partnership level (in the case of commercial activities).

This survey is restricted to the taxation of corporations (SAs) and limited liability companies (SARLs), as well as foreign-incorporated entities of a similar description, whether resident or non-resident. These entities will be referred to as companies.

1.2.1. Residence

Resident companies are defined for tax purposes as companies that have their legal seat or place of effective management in Luxembourg.

1.3. Taxable income

1.3.1. General

Corporate income tax is levied on worldwide income and capital gains of resident companies. All income derived by a company is characterized as business income.

Commercial profit is calculated as the difference between the net assets invested at the end of the financial year and the net assets invested at the start of the period, increased by withdrawals made during the period and decreased by capital contributed during the period (net worth comparison method).

1.3.2. Exempt income

The only important items of exempt income are domestic and foreign dividends and capital gains qualifying for the participation exemption regime (see 2.2.).

1.3.3. Deductions

Deductible business expenses include those exclusively incurred by the enterprise. Expenses economically connected with exempt income are not deductible; to the extent that expenses exceed tax-exempt income they are deductible (though may be subject to recapture rules).

Deductible expenses include:
- effective foreign taxes (taxes exceeding the amount creditable under domestic law or a treaty);
- deductible domestic taxes, such as the real estate tax and non-creditable VAT;
- royalties and service fees at arm’s length;
- interest at arm’s length not connected with exempt income;
- charitable donations (generally limited to EUR 1 million or in total 20% of net income, whichever is lower);
- social security payments; and
- legal expenses.

Non-deductible expenses generally include:
- corporate income tax, net worth tax and municipal business tax;
- profit distributions;
- directors’ fees;
- allocation to self-insurance reserves;
- gifts;
- most fines and penalties; and
- departure or dismissal indemnities exceeding EUR 300,000.

1
1.3.4. Valuation of inventory

Inventory may be valued at the lower of the acquisition (or production) cost or going concern value. The acquisition cost is the price paid, increased by all irrecoverable duties, such as import duties and taxes, and related costs. Inventory, which cannot be depreciated, may produce revaluation income. The book value of inventory may not exceed the historic cost. LIFO (last in, first out), HIFO (highest in, first out), FIFO (first in, first out) and the average cost methods are generally allowed. However, the base-stock method is not.

1.3.5. Depreciation and amortization

Depreciation of business assets that diminish in value either by use or by decrease of substance (e.g. mineral deposits) is compulsory and must take place whether the company is profitable or sustains a loss. Depreciation must be taken on the basis of the acquisition or production cost (less salvage value) and expected useful life. However, where the owner of the depreciable assets is also the user and the useful life does not exceed 1 year, or where the acquisition or production cost does not exceed EUR 870, the assets may generally be written off in the financial year of acquisition or manufacture.

Land, participations in the share capital of other companies, and inventory are not depreciable for tax purposes. Purchased goodwill may be depreciated. The tax authorities accept depreciation of goodwill over its useful life. A depreciation period between 5 and 10 years is generally accepted.

Two depreciation methods are generally allowed: the straight-line method and, for certain tangible assets (except buildings), the declining-balance method. The taxpayer may change from the declining-balance to the straight-line method, but not vice versa. Extraordinary depreciation is allowed if justified by excessive wear and tear (technical as well as economic). Accelerated depreciation is available for investments in certain assets (see 1.7.3.).

Under the straight-line method, the following depreciation rates generally apply:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>office buildings</td>
<td>2 – 3</td>
</tr>
<tr>
<td>industrial buildings</td>
<td>4 – 5</td>
</tr>
<tr>
<td>plant</td>
<td>10 – 20</td>
</tr>
<tr>
<td>office equipment</td>
<td>10 – 20</td>
</tr>
<tr>
<td>vehicles</td>
<td>25</td>
</tr>
</tbody>
</table>

The depreciation rate under the declining-balance method is subject to strict conditions and may not exceed three times the normal depreciation rate according to the straight-line method or 30% of the value of the depreciated asset (four times and 40% for scientific and technical research equipment).

The declining-balance method may not be applied to assets the use of which is transferred to another person. The asset may not be a building. With respect to a sale and lease-back, the lessor may not take depreciation that is higher than the rent paid by the lessee.

1.3.6. Reserves and provisions

Subject to certain conditions, rollover relief applies to capital gains derived from the sale of a building or a non-depreciable fixed asset. The selling price must be reinvested within 2 years after the selling year.

Tax-deductible provisions can be made for, inter alia, guarantees and warranties, damage claims, litigation expenses and (within certain limits) future pension payments to employees. Self-insurance provisions and deferred repair and maintenance provisions are not deductible.

A “sufficient approximation” may be used to value bad debts and a corresponding amount may be deducted from annual taxable income. If the debt is actually paid in a subsequent year, the deducted amount must be included in the tax base.

1.4. Capital gains

No distinction is made between gains arising from the sale of capital assets and those arising from the sale of non-capital assets. Capital gains derived from the alienation of assets, in principle, are included in annual taxable income in the same manner as other income from the business.

Capital gains on the sale of shares may be exempt from corporate income tax, subject to certain conditions (see 2.2.). For rollover relief, see 1.3.6.

1.5. Losses

1.5.1. Ordinary losses

Losses may be carried forward indefinitely. No carry-back is allowed.

A successor company in a statutory merger, consolidation or reorganization may not take over the net operating losses of an absorbed company.

1.5.2. Capital losses

A capital loss from the sale or other disposition of business property is also deductible. If the company has negative income, the loss may be carried forward.

1.6. Rates

1.6.1. Income and capital gains

The general corporate income tax rate is currently 21% (22% prior to 1 January 2009). For companies whose taxable income is not more than EUR 15,000, the basic rate is 20% on income up to EUR 10,000 and 26% on any excess up to EUR 15,000.

A 5% surcharge for the employment fund is levied on the corporate income tax due, making the general effective rate 22.05%.

Currently, the combined corporate tax rate for the City of Luxembourg is 28.80% (28.59% prior to 1 January 2011). This rate comprises the corporate income tax of
21%, the 5% surcharge and the 6.75% municipal business tax.

For the municipal business tax, see 3.1.

1.6.2. Minimum flat tax

A minimum flat tax of EUR 1,500 per annum is levied on entities subject to corporate income tax, of which financial assets (including transferable securities, receivables, bank deposits, etc.) exceed 90% of their total assets. Entities performing activities that are subject to a business licence or requiring the approval of a supervisory authority (e.g. investment funds) are, however, explicitly excluded from the scope of this flat tax. If several Luxembourg companies form part of a fiscal unity, the flat tax only applies once at the level of the integrating parent company (or the Luxembourg permanent establishment) heading the fiscal unity.

1.6.3. Withholding taxes

In general, a 15% withholding tax is levied on dividends paid by resident companies to other resident companies. An exemption from withholding tax is granted under the same conditions that apply to the participation exemption for corporate income tax purposes (see 2.2.). Liquidation payments are not subject to withholding tax. Dividends paid by exempt Luxembourg holding companies (see 1.7.2.) and investment funds are exempt from withholding tax.

The tax withheld is credited against the recipient’s corporate income tax liability of the same year. Any excess withholding tax may be credited against other tax claims or is refunded.

There is no withholding tax on ordinary interest paid to resident companies. Interest on profit-sharing bonds is, however, subject to the same withholding tax that applies to dividends.

Royalties are not subject to withholding tax.

For withholding tax rates on payments to non-resident companies, see 6.3.1.

1.7. Incentives

1.7.1. Intellectual property regime

With effect from 1 January 2008, an 80% exemption is granted for qualifying income and gains from intellectual property (IP). The 80% exemption applies to the "net positive" income (i.e. gross revenue from the IP less directly connected expenses, depreciation and write-downs) of certain types of IP, including software copyrights, patents, trademarks, service marks, domain names, designs and models. To qualify for the regime, the IP must have been acquired or developed after 31 December 2007.

Expenses, amortizations and write-downs economically related to the IP must be capitalized on the company’s balance sheet and included in the profit and loss account from the first financial year for which the company wishes to benefit from this regime. The 80% exemption generally does not apply to IP acquisitions involving “directly” related companies where there is common and direct ownership between them of at least 10% (for example: either (a) the seller and buyer companies are direct owners of each other by at least 10% or (b) both the companies are directly owned for at least 10% by the same common parent).

Qualifying IP assets are also exempt from net worth tax (see 5.1.).

1.7.2. Tax-exempt 1929 holding companies

The 1929 holding company regime is abolished with effect from 1 January 2007. The 1929 holding companies in existence on 20 July 2006 continued to benefit from the regime during the transitional period from 1 January 2007 through 31 December 2010.

1.7.3. Accelerated depreciation

A special depreciation allowance is permitted for investments to enable disabled persons to work and for investments to protect the environment, save energy or reduce waste. The acquisition or production cost of the investment must be at least EUR 2,400 (exclusive of VAT). This depreciation allowance may not exceed 80% of the acquisition or production cost of the qualifying assets. The depreciation may be taken during the year of investment or one of the following 4 years. Alternatively, it may be spread equally over these years.

This special depreciation allowance does not exclude taking depreciation concurrently under the straight-line method, which is then computed on the acquisition or production cost after deduction of the special depreciation allowance. Concurrent depreciation under the declining-balance method is excluded.

1.7.4. Investment credit

Two types of investment tax credit are available on application for certain investments in assets acquired in the current year and used in Luxembourg. First, companies may deduct from the corporate income tax due an amount equal to 13% of "supplementary investment" in qualifying assets, i.e. tangible depreciable assets, other than buildings, livestock and mineral and fossil deposits. Supplementary investment is the difference between the accounting value attributed to the qualifying assets at the end of the financial year, plus the depreciation of the year on such (qualifying) assets and the reference value, which is the average value attributed to the same category of assets at the end of the 5 preceding financial years. The reference value is deemed to be at least EUR 1,850.

In general, the following assets are not taken into account in determining the value of qualifying assets at the end of the financial year:

- assets depreciated over less than 3 years;
- cars for personal use;
- assets acquired on the transfer for consideration of a whole enterprise or of an autonomous part or subdivision of an enterprise;
- second-hand assets; and
– isolated assets acquired for free.

Second, companies may deduct from corporate income tax due an amount equal to 7% of the total acquisition price of investments in qualifying assets acquired during the year. If the total amount invested in a year exceeds EUR 150,000, the deduction is limited to 7% of the first EUR 150,000 and 3% of the excess. Qualifying assets are tangible depreciable assets (other than buildings, livestock and mineral and fossil deposits), heating plants and sanitation systems in hotel buildings and certain buildings used for social purposes. For investments that qualify for accelerated depreciation (see 1.7.3.), these percentages are increased to 8% and 4%, respectively. This increased tax credit is granted in addition to the accelerated depreciation allowance in respect of the same assets.

The credit is generally not granted for:
1. assets depreciated over less than 3 years;
2. second-hand assets acquired in Luxembourg;
3. cars for personal use; and
4. assets acquired on the transfer of a whole enterprise or autonomous part or subdivision of an enterprise.

With regard to (4), the above credits are, however, available under certain conditions where investments are made within 3 years from the date of the establishment of a new enterprise. However, if investments made within the first 3 years after the establishment of the company exceed in total EUR 250,000, the basis for computing the tax credit will be reduced by the amount exceeding EUR 250,000.

The above credits must be set off against the tax on the income of the tax year in which the investments were made. No refund of income tax is granted where the credit exceeds the tax. Excess credits, however, may be carried forward for 10 years.

1.7.5. Incentive for new industrial activities

New businesses and business activities that are considered to be vital to the growth of the national economy may benefit from a partial tax exemption during 8 financial years, provided that they do not compete with other businesses. The amount of the tax exemption depends on the type and on the extent of the investment in land, buildings and equipment and is subject to a maximum of 25% of the profits generated by the new activity.

1.7.6. Audio-visual investment certificates

Certificates issued for investment in the audio-visual sector entitle the investing company to a tax credit (with certain limits) against the corporate income tax due. The amount of the credit is stated in the certificate.

1.7.7. Venture capital investment certificates

Certificates issued for investment in venture capital with the aim to finance enterprises using the funds to introduce new technologies or means of manufacture entitle the investing company to a credit against the corporate income tax due. The credit is limited to EUR 5 million per investment and may not exceed 30% of the taxpayer’s taxable income.

1.7.8. Venture capital/private equity investment vehicle (SICAR)

The Law of 15 June 2004 provides for a venture capital/private equity vehicle known as a SICAR (Société d’investissement en capital à risque) to facilitate the raising of funds and the investment in risk-bearing capital. A SICAR can take several legal forms of business entities, including the SA and SARL. The SICAR must be managed from Luxembourg and have a minimum capital of EUR 1 million. Other requirements apply in order to qualify for SICAR status, including pre-approval by the financial services authority (CSSF).

SICARs are generally subject to full corporate income tax. However, SICAR income derived from transferable securities (e.g. dividends and capital gains) is exempt. Dividends paid from a SICAR are generally exempt from withholding tax. SICARs are also exempt from net worth tax. Also, management services rendered to a SICAR subject to supervision of the CSSF are exempt from VAT.

1.7.9. Securitization regime

The Law of 22 March 2004 provides for an attractive legal and regulatory framework for Luxembourg securitization vehicles (SVs). SVs can take the form of either a company or a fund run by a management company, and can be regulated or non-regulated, generally depending on whether there is a public or continuous issuance of securities.

SVs that are companies are subject to full corporate income tax. However, payments made pursuant to “commitments” made to investors are generally deductible. Commitments can include dividends and interest payments, and therefore can result in a reduction of the taxable base close to zero. Further, an SV is exempt from net worth tax and is not subject to any thin capitalization restrictions. Also, management services rendered to an SV are exempt from VAT.

1.7.10. Occupational training credit

Companies may apply for credit relief for the training costs of employees, subject to the conditions of the law and regulations. The credit is equal to 10% of qualifying training costs. (Alternatively, a cash grant may be chosen.)

1.8. Administration

1.8.1. Taxable period

The tax year of a corporate taxpayer is generally the calendar year. However, if a taxpayer’s financial year does not coincide with the calendar year, the tax year is the financial year ending in the calendar year in question.

1.8.2. Tax returns and assessment

The official deadline for filing corporate income tax, municipal business tax and net wealth tax returns is 31 May of the year following the tax year. This deadline is, however, automatically extended by the tax authorities.
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until 31 December of that year without assessing any penalties.

The tax authorities have to review the returns and issue the final tax assessments within a 5-year period, which begins on the first day following the end of the tax year and closes at the end of the 5th year following the tax year.

A new procedure, which in a first step is only applicable to companies with share capital (e.g. SARL, SA, SCA and SE), provides that the tax authorities may issue a provisional tax assessment (subject to further control) and determine the tax liability on the basis of the tax return filed, without having the tax return reviewed. This provisional tax assessment becomes final after the above-mentioned 5-year period, unless the tax authorities issue a final tax assessment after review of the tax return before the expiration of the 5-year period, following the tax year in question.

1.8.3. Payment of tax

Advance payments of corporate income tax are due quarterly on 10 March, 10 June, 10 September and 10 December. Advance payments of municipal business tax and net wealth tax are due quarterly on 10 February, 10 May, 10 August and 10 November. The amount of the advance payment is based on the latest tax assessment.

The final tax liability is determined by assessment (see 1.8.2.). Advance payments are creditable against the final tax liability and any excess is refunded. Any outstanding tax must be paid within 1 month of the date of issuance of the tax assessment.

1.8.4. Rulings

Luxembourg does not have a tax ruling practice. However, a taxpayer may request a tax clearance from the authorities for guidance on the application of Luxembourg tax law to the taxpayer’s specific facts and circumstances.

2. Groups of Companies

2.1. Group treatment

Fiscal consolidation is allowable for corporate and business tax purposes, but not for net worth tax purposes. A fully taxable resident company, of which at least 95% of the capital is directly or indirectly held by another fully taxable resident company, or a Luxembourg permanent establishment of a non-resident company subject to a tax comparable to the Luxembourg corporate tax, may apply for fiscal consolidation with its parent company. Fiscal consolidation is also available for a fully taxable resident company indirectly held by a non-resident fully taxable capital company, if the above-mentioned criteria are fulfilled. Fiscal consolidation means that the taxable income (whether negative or positive) of the subsidiary is added to the taxable income of the parent so that the parent is taxed on the aggregate taxable income.

In exceptional cases, the 95% interest requirement may be reduced to 75%. The conditions must be met at the beginning of the financial year for which the consolidation is requested. If consolidation is granted, it must be continued for at least 5 years.

SICARs and SVs (see 1.7.8. and 1.7.9.) are excluded from the fiscal consolidation regime.

2.2. Participation relief

Dividends

In general, dividends are included in taxable income for corporate income tax purposes. However, dividends derived from a qualifying participation may be exempt.

To qualify for his participation exemption, the parent company must be:

(1) a fully taxable resident company;

(2) a Luxembourg permanent establishment, including permanent establishments of either:

(a) an entity covered by the Parent-Subsidiary Directive;

(b) a share capital company resident in a country with which Luxembourg has a tax treaty; or

(c) a share capital company resident in an EEA country.

The subsidiary must be:

(1) a fully taxable resident company;

(2) an entity covered by the Parent-Subsidiary Directive; or

(3) a non-resident subsidiary subject to a tax comparable to the Luxembourg corporate income tax (a rate of at least 10.5% from 1 January 2009 and 11% for prior years levied on a comparable tax base is required).

The parent must have owned directly or indirectly a capital participation of at least 10% or a participation with an acquisition cost of at least EUR 1.2 million for an uninterrupted period of at least 12 months on the date the dividend is distributed or if the parent commits itself to hold the minimum participation for an uninterrupted period of at least 12 months.

Where the participation exemption does not apply, 50% of the dividends (and interest on profit-sharing bonds) derived from a fully taxable resident company is exempt from corporate income tax.

Capital gains

Capital gains derived from the disposal of shares may also be exempt from corporate income tax under the participation exemption. The conditions are the same as for dividends, except that the minimum acquisition cost for the shares is EUR 6 million.

Deductibility of related expenses

Expenses in relation with a participation qualifying for the participation exemption (e.g. interest expenses on loans used to finance the acquisition of a shareholding) are only deductible to the extent that they exceed the exempt income arising from such a participation in a given year. The same rule also applies to a write-down of the value of a participation.

The part of the capital gain which would otherwise be exempt on the disposal of a qualifying participation is, however, reduced by the amount of expenses related to
the participation and any prior deductible write-downs in
the value of the participation which have previously
reduced the Luxembourg taxable base and which have
not been neutralized in the meantime by a step-up in
value. In the case of a write-down of a loan granted by
the parent to its subsidiary, the value adjustment is taken
into account in the same manner.

3. Other Taxes on Income

3.1. Municipal business tax

A municipal business tax is levied on all business estab-
lishments located in Luxembourg, including those of a
tax-transparent entity (e.g. partnership), which carry on a
commercial activity in Luxembourg. This tax is in addi-
tion to corporate income tax. The tax is computed fol-
lowing the rules for the corporate income tax, with cer-
tain exceptions. A basic deduction of EUR 17,500
generally applies.

The basic rate of the business tax is 3%. It is multiplied
by coefficients determined by the municipality in which
the business establishment is located. These coefficients
vary from 2 to 3.5. The effective rate for the City of
Luxembourg is 6.75% (3 x 2.25). The tax is not deduct-
ible for corporate income tax purposes.

4. Taxes on Payroll

4.1. Payroll tax

There is no payroll tax.

4.2. Social security contributions

Employers must make social security contributions on
behalf of their employees. The taxable base includes
gross wages and salaries, including benefits in kind, sub-
ject to a monthly ceiling of EUR 8,624 (from 1 July
2010). The rates are as follows:

<table>
<thead>
<tr>
<th>Contribution for</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>pension insurance</td>
<td>8</td>
</tr>
<tr>
<td>health insurance</td>
<td>2.951</td>
</tr>
</tbody>
</table>
| mutual health care insu-
 ance                  | 0.88-2.012|
| accident insurance      | 0.45-63  |
| health at work          | 0.11     |

1. On monthly gross salary. The rate is 2.7% on non-periodic
   remuneration (the 13th month payment, bonuses, etc.) and
   benefits in kind (e.g. company car).
2. The rates are 0.88%, 1.36%, 1.77% and 2.01%, depending on
   the absenteeism rate of the employees in the company.
3. Depending on the risk.

5. Taxes on Capital

5.1. Net worth tax

Luxembourg companies and foreign companies with Lux-
embourg branches are subject to a net worth tax charge
of 0.5% on their worldwide “unitary value” (generally
equal to the net asset value of the company or branch –
subject to certain exemptions and adjustments). The
value of a qualifying participation is generally exempt
from net worth tax under the same conditions that apply
to the participation exemption for dividends (see 2.2.),
except that there is no holding period condition. As an
alternative to paying the net worth tax, a company may
set up a net worth tax reserve generally equal to five
times the net worth tax charge in its accounts for 5 years;
other conditions apply as well.

5.2. Real estate tax

The local real estate tax is levied on owners of immov-
able property. The tax is calculated on the unitary value
determined in accordance with the Valuation Law. The
taxable base is computed by applying a basic rate to the
unitary value of the property. A municipal coefficient is
applied to the taxable base to obtain the real estate tax.

The applicable rates depend on the municipality and the
nature of the property. The basic rates on business pre-
misses and non-developed land range from 0.7% to 1%,
depending on the municipality. The basic rate can be
increased for non-developed land designated for residen-
tial development. The basic rate is multiplied by muni-
cipal coefficients, which vary between approximately 120
and 1,000.

6. International Aspects

6.1. Resident companies

For the concept of residence, see 1.2.1.

6.1.1. Foreign income and capital gains

Resident companies are subject to corporate income tax
on their worldwide income, including capital gains. The
rules described in 1.3. and 1.4. generally apply.

Foreign-source business income, interest and royalties are
fully taxable. Foreign dividends are also fully taxable,
unless the participation exemption applies (see 2.2.).
With respect to foreign dividends, the exemption applies
subject to the additional condition that the non-resident
subsidiary is subject to a tax comparable to the Luxem-
bourg corporate income tax (a rate of at least 10.5% from
1 January 2009 and 11% for prior years levied on a
comparable tax base is required) or a company resident
in an EU Member State as referred to in Art. 2 of the EC
Parent-Subsidiary Directive. Where the participation
exemption does not apply, 50% of the dividends (and
interest on profit-sharing bonds) are exempt from corpo-
rate income tax, provided that they are derived from
qualifying EU subsidiaries or companies that are resident
in tax treaty countries and subject to a tax comparable to
the Luxembourg corporate income tax.

Capital gains on the sale of shares in non-resident com-
panies may also be exempt under the same conditions
that apply to domestic gains (see 2.2.). In respect of
foreign-source gains, the exemption is only available if
the non-resident company is a qualifying EU company or
a company subject to a tax comparable to the Luxem-
bourg corporate income tax. The non-resident company
is subject to a tax comparable to the Luxembourg corpo-
rate income tax. The rates are as follows:
bourg corporate income tax. Capital losses on assets belonging to a permanent establishment abroad are only deductible if the permanent establishment is situated in a non-treaty country (with respect to a treaty country, the income from the permanent establishment is exempt in Luxembourg).

6.1.2. Foreign capital

Resident companies are subject to net worth tax (see 5.1.) on their worldwide property, except for qualifying shareholdings in non-resident companies (see 6.1.1.) and property exempt under treaties (in general, permanent establishments and immovable property located abroad).

6.1.3. Double taxation relief

All income from foreign sources is included in taxable income, but unilateral relief is granted for the following types of income:

- income derived from a foreign permanent establishment or permanent dependent representative who has the power to conclude contracts;
- capital gains realized on assets of a business enterprise if these assets are situated abroad or on shares held in a non-resident company;
- investment income if the place of management of a debtor is situated abroad; and
- rental income from immovable property and income from the right to use mines.

The relief is granted in the form of a tax credit. The credit is normally only granted in respect of foreign national taxes that are comparable to Luxembourg income tax. A per-country restriction is applied to the foreign tax credit, i.e. each country’s tax may only be deducted from that portion of Luxembourg tax which corresponds to income from that particular country. However, the company may opt for an overall limitation of the credit for taxes on dividends and interest derived from different countries. In that situation, the credit allowed per item of foreign income may not exceed 25% of that income. The total credit relating to such income is restricted to 20% of the total amount of Luxembourg corporate income tax computed before taking into consideration the foreign taxes.

Foreign taxes that cannot be credited due to the above limitations may be deducted in computing taxable income, but no deduction is granted for foreign tax that is only deemed to have been levied in accordance with tax treaty provisions (tax sparing credits).

With respect to dividends, no tax credit for underlying tax is granted. Foreign withholding taxes levied on exempt dividends (see 6.1.1.) are, in principle, not creditable.

Tax treaties have priority over domestic law, unless the domestic rules result in a more favourable tax treatment.

6.2. Non-resident companies

For the concept of residence, see 1.2.1.

6.2.1. Taxes on income and capital gains

Non-resident companies are taxed on the following types of Luxembourg-source income:

1. profits from a permanent establishment or permanent representative in Luxembourg (including dividends, royalties, and interest attributable to that permanent establishment or representative);
2. interest on profit-sharing bonds;
3. rental income from movable or immovable property located or registered in Luxembourg;
4. gains from Luxembourg-situs real estate not already taxable under (1);
5. gains derived from the sale of a substantial participation (i.e., holding more than 10% of the share capital in a Luxembourg company) in a Luxembourg company if the period between the acquisition and the disposal is 6 months or less; and
6. gains derived from the sale of a substantial participation in a Luxembourg company more than 6 months after the acquisition only if the shareholder was a resident of Luxembourg for more than 15 years and became a non-resident less than 5 years prior to the sale.

Income and capital gains derived by non-residents are subject to corporate income tax at rates applicable to residents if the income is assessed (see 1.6.1.).

The municipal business tax (see 3.1.) is levied on all business establishments located in Luxembourg, including business establishments maintained by a non-resident company. The rates for non-resident companies are the same as for resident companies.

For withholding tax on payments to non-residents, see 6.3.

6.2.2. Taxes on capital

Non-resident companies are subject to net worth tax (see 5.1.) on their assets located in Luxembourg, including Luxembourg-situs immovable property and assets of a permanent establishment in Luxembourg.

6.2.3. Administration

Permanent establishments of non-resident companies are taxed by assessment. For details, see 1.8. For withholding taxes, see 6.3.

6.3. Withholding taxes

6.3.1. Dividends

In general, a 15% withholding tax is levied generally on dividends paid by resident companies. Liquidation proceeds are not subject to any withholding tax. There is no withholding tax on dividends paid by an exempt Luxembourg holding company (see 1.7.2.) or an exempt undertaking for collective investment in transferable securities (UCITs).

Luxembourg provides for an exemption from dividend withholding tax on dividends paid by a fully taxable Luxembourg resident company to:
Luxembourg Corporate Taxation

<table>
<thead>
<tr>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals,</td>
<td>Qualifying</td>
<td>Companies</td>
</tr>
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- a company resident in an EU Member State as referred to in Art. 2 of the EC Parent-Subsidiary Directive;
- a Swiss resident company subject to Swiss tax and not benefiting from an exemption in Switzerland;
- a company located in an EEA jurisdiction which is subject to a tax comparable to the Luxembourg corporate income tax;
- a Luxembourg permanent establishment of a company resident in an EU Member State as referred to in Art. 2 of the EC Parent-Subsidiary Directive;
- a Luxembourg permanent establishment of a company resident in a state with which Luxembourg has concluded a tax treaty; and
- a shareholder with a "collective character" (e.g. a company) which is resident in a country with which Luxembourg has concluded a tax treaty and subject in that country to a corporate income tax comparable to the Luxembourg corporate income tax (a rate of at least 10.5% from 1 January 2009 and 11% for prior years levied on a comparable tax base is generally required).

The exemption in the above situations applies if the parent owns directly or indirectly a capital participation of at least 10% or a participation with an acquisition cost of at least EUR 1.2 million for an uninterrupted period of at least 12 months or if the parent commits itself to hold the minimum participation for an uninterrupted period of at least 12 months.

6.3.2. Interest

There is no withholding tax on ordinary interest paid to non-resident companies. However, interest on profit-sharing bonds is subject to the same withholding tax that applies to dividends (as allowed by Art. 4 of the Interest and Royalties Directive).

6.3.3. Royalties

Luxembourg does not levy withholding tax on royalties paid to either resident or non-resident companies.

6.3.4. Other

No other payments to non-resident companies are subject to withholding tax.

6.3.5. Withholding tax rates chart

The following chart contains the withholding tax rates that are applicable to dividend, interest and royalty payments by Luxembourg companies to non-residents under the tax treaties currently in force. Where, in a particular case, a treaty rate is higher than the domestic rate, the latter is applicable. (Under domestic law, there is no withholding tax on interest other than interest on profit-sharing bonds, nor on royalties.)

A reduced treaty rate may be applied at source if the appropriate residence certificate has been presented to the withholding agent making the payment.
1. Many treaties provide for an exemption for certain types of interest, e.g., interest paid to the state, local authorities, the central bank, export credit institutions or in relation to sales on credit.

2. Unless indicated otherwise, the rate in this column generally applies if the recipient company holds, directly or indirectly, at least 25% of the capital or the voting power of the paying company, as the case may be.

3. The rate applies if the recipient company owns at least 10% of the distributing company’s capital or voting power, as the case may be. Special conditions may apply (e.g., holding periods and invested amounts).

4. The lower rate applies, inter alia, to interest paid to a bank or financial institution. Conditions may apply.

5. The higher rate applies if the Austrian company owns more than 50% of the capital in the Luxembourg company.

6. The zero rate applies if the recipient company owns directly or indirectly at least 30% of the capital in the Luxembourg company and has invested at least USD 300,000 in that company.

7. The rate applies to royalties for computer software, patents and know-how.

8. The rate is 7% as long as Vietnam does not levy a withholding tax on interest.

9. The zero rate applies if the recipient company holds, directly or indirectly, at least 25% of the capital in the Luxembourg company and has invested at least EUR 2 million in that company.

10. The lower rate applies to equipment rentals and to know-how.

11. The domestic rate applies if the company holds at least 10% of the capital of the Luxembourg company and has been resident of the other country for at least 48 months preceding the year in which the dividends were paid.

12. The lower rate applies if the Moldovan company holds directly or indirectly at least 50% of the capital in the Luxembourg company.

13. The 5% rate applies if the Liechtenstein company owns directly at least 10% of the capital of the Luxembourg company and 0% if the Liechtenstein company for an uninterrupted period of at least 12 months owns directly at least 10% of the capital of the Luxembourg company or a participation of at least EUR 1.2 million.

14. The 5% rate applies if the Malaysian company owns directly at least 10% of the capital in the Luxembourg company. The zero rate applies if it has owned directly at least 25% of the capital in the Luxembourg company for at least 12 months and the Luxembourg company is engaged in the active conduct of a trade or business in Luxembourg.

15. The lower rate applies if the Moldovan company holds directly at least 20% of the capital in the Luxembourg company.

16. The lower rate applies, inter alia, to interest paid by a public body or paid to a financial institution.

17. Interest on loans secured by mortgages on immovable property is exempt. Interest on profit-sharing bonds is treated as dividends.

18. The lower rate applies to individuals who own directly at least 10% of the capital of the company paying the dividends and have been residents of the other country for at least 48 months preceding the year in which the dividends were paid.

19. The lower rate applies if it has owned directly at least 25% of the capital in the Luxembourg company.

20. The zero rate applies if the Liechtenstein company owns directly at least 10% of the capital of the Luxembourg company and has invested at least EUR 1 million in that company.

21. The 5% rate applies if the Liechtenstein company owns directly at least 10% of the capital of the Luxembourg company and 0% if the Liechtenstein company for an uninterrupted period of at least 12 months owns directly at least 10% of the capital of the Luxembourg company or a participation of at least EUR 1.2 million.

22. The zero rate applies if the Swiss company owns directly at least 10% of the capital of the Luxembourg company.

23. The lower rate applies if it has owned directly at least 25% of the capital in the Luxembourg company.

24. The lower rate applies, inter alia, to interest paid by a public body or paid to a financial institution.

25. The lower rate applies to interest on bank deposits and bank loans. Conditions may apply.

26. Interest on loans secured by mortgages on immovable property is exempt. Interest on profit-sharing bonds is treated as dividends.

27. The lower rate applies to individuals who own directly at least 10% of the capital of the company paying the dividends and have been residents of the other country for at least 48 months preceding the year in which the dividends were paid.

28. The 10% rate applies if the individual or corporate recipient holds directly at least 30% of the capital of the Luxembourg company and the price of acquisition of the holding is at least EUR 75,000.

29. The 5% rate applies if the Swiss company owns directly at least 10% of the distributing company’s capital. The exemption applies if it has owned such a holding for a continuous period of 2 years prior to the payment. The exemption also applies to dividends paid to a recognized pension fund or pension scheme.

30. The higher rate applies to interest on bonds and other similar securities and to interest on bank deposits.

31. The exemption applies, inter alia, to interest paid by a public body. The 7.5% rate applies to interest on bank loans, interest on bank deposits not represented by bearer instruments and interest paid in relation to sales on credit.

32. The lower rate applies if the Swiss company owns directly at least 10% of the capital of the Luxembourg company.

33. The lower rate applies if the Swiss company owns directly at least 10% of the capital of the Luxembourg company.

34. The 5% rate applies if the US company owns directly at least 10% of the capital of the Luxembourg company.

35. The higher rate applies if the distributing company’s capital or if the purchase price of the recipient company’s direct holding is at least EUR 6.197.338 (LUF 250 million).

36. The lower rate applies, inter alia, to interest paid to a bank or financial institution. Conditions may apply.

7. Anti-Avoidance

7.1. General

Luxembourg law contains a general anti-abuse provision, which provides that legal forms and legal "constructions" in civil law may not be abused for the purpose of tax
avoidance. If the legal form or “construction” surrounding a transaction is not appropriate in terms of its substance, tax will be assessed as though the substance of the transaction had been concluded in the appropriate legal form.

In addition, if a Luxembourg company has a specific direct or indirect economic relationship with a non-resident taxpayer that results in profit shifting, the tax authorities may adjust the taxable base of the Luxembourg company in order to reflect the arm’s length conditions.

7.2. Transfer pricing

There are no special transfer pricing regulations except a circular on the tax treatment of intra-group financing companies. This circular generally refers to the OECD guidelines and provides for the application of the arm’s length principle with respect to Luxembourg entities that principally conduct intra-group financing transactions. In addition, the circular also defines, among others, an arm’s length remuneration regarding intra-group financing activities and an appropriate level of Luxembourg substance for such activities.

However, where transactions between a parent company and a subsidiary take place, a non-taxable capital contribution or a non-deductible profit distribution may be assumed if such transactions are not considered to have taken place at arm’s length. Such distribution is also subject to dividend withholding tax (see 1.6.2. and 6.3.1.).

7.3. Thin capitalization

Although there are no general rules on thin capitalization, interest payments may be regarded as hidden profit distributions if the lending company is a shareholder of the borrowing company. In practice, the tax administration applies a debt to equity ratio of 85:15 for the holding of participations.

7.4. Controlled foreign company

There are no rules on CFC taxation.

8. Value Added Tax

8.1. General

Value added tax is a general tax on the consumption of goods and services in Luxembourg.

8.2. Taxable persons

Taxable persons include, in general, all entrepreneurs, including persons exercising liberal professions and importers. For the application of the place of supply rules, non-taxable persons registered for VAT purposes are considered to be taxable persons and taxable persons performing mixed activities (i.e. activities falling within and outside the scope of VAT) are considered to be taxable persons with respect to all services provided to them. Foreign companies supplying goods or services in Luxembourg are entrepreneurs for VAT purposes. Luxembourg entrepreneurs are not obliged to register for VAT purposes (but can opt to do so) if their annual estimated turnover is below EUR 10,000.

8.3. Taxable transactions

The following transactions are taxable:
- the supply of goods and services in Luxembourg by an entrepreneur in the course of a business;
- the intra-Community acquisition of goods in Luxembourg by an entrepreneur in the course of a business or by a legal entity that is not an entrepreneur;
- the intra-Community acquisition in Luxembourg of new means of transport by any person; and
- the import of goods from outside the European Union into Luxembourg.

8.4. Taxable amount

The taxable amount is the consideration received (excluding VAT) for goods supplied and services rendered, and the value at importation (including customs duties).

8.5. Exemptions

Exemptions include various services with respect to educational, cultural and medical services, most financial transactions and most transactions related to leasing of immovable property.

8.6. Rates

The standard rate of VAT is 15%. The intermediate rate of 12% applies to wines (with an alcohol percentage less than 13%), fuels, commercial publications and custodian services. The reduced rate of 6% applies to gas, electricity, import of works of art and their supply under certain conditions. The special reduced rate of 3% applies to radio and television broadcasting services, copyrights, food products (except alcoholic drinks), books and periodicals, children’s clothes, water, pharmaceutical products, transport of individuals, accommodation, and access to cultural, educational and sporting events.

Supplies subject to the zero rate include supplies of goods shipped or transported outside the European Union or to VAT entrepreneurs established outside Luxembourg, and the supplies of services ancillary to the export of goods placed under customs schemes.

8.7. Non-residents

Non-residents are taxable in the same manner as resident taxpayers if they carry out any taxable transactions in Luxembourg (see 8.3.). Non-EU resident taxpayers who do not have a fixed establishment in Luxembourg may be required to deposit a bank guarantee when registering for VAT purposes in Luxembourg.

Luxembourg VAT is refunded to non-resident entrepreneurs in the following ways:
- a non-resident entrepreneur who is established in another EU Member State and who does not make
taxable supplies in Luxembourg may ask for a refund of Luxembourg VAT with the tax authorities in the Member State in which he is established on the basis of the Eighth VAT Directive;

- a non-resident entrepreneur who is established outside the European Union and who does not make taxable supplies in Luxembourg may ask for a refund on the basis of the Thirteenth VAT Directive; and

- a non-resident entrepreneur who has a VAT identification number in Luxembourg may deduct input VAT on his Luxembourg VAT return provided that he may benefit from a recovery of Luxembourg input VAT.

9. Miscellaneous Indirect Taxes

9.1. Capital duty

Capital duty has been abolished with effect from 1 January 2009.

9.2. Transfer tax

No transfer taxes are levied on the transfer of immovable property or securities.

9.3. Subscription tax

An annual subscription tax is imposed on exempt undertakings for collective investment in transferable securities (UCITSs).

The rate is 0.05% on the net assets of UCITSs (0.01% for UCITSs investing in specific assets).