



DOING BUSINESS IN LUXEMBOURG

TO SET UP A BUSINESS IN LUXEMBOURG YOU CAN EITHER

Open a branch office OR choose one of the different forms of company as a subsidiary

BRANCH	SUBSIDIARY
Luxembourg branch office not a separate legal entity from the company itself: its results are therefore immediately included in the parent company's accounts;	Separate legal entity from the parent company: its profits are therefore subject to income tax in Luxembourg;
Foreign branch office abroad not a separate legal entity from the company itself: profits are therefore immediately included in the company's accounts;	Luxembourg subsidiary is a separate legal entity from the parent company: its profits are therefore subject to income tax in Luxembourg;
However, according to most tax treaties signed by Luxembourg, its profits are non-taxable and non-deductible in the Grand Duchy, and are therefore taxable in the branch office's host country.	The Luxembourg parent company is in principle subject to tax on profits which the subsidiary pays to it in the form of dividends or interest, in most cases, dividends are exempt from tax at parent-company level;
Where there is no international tax agreement, income generated by the branch office is subject to Luxembourg tax, with a tax credit for the foreign tax;	Foreign subsidiary is a separate legal entity from the Luxembourg company: latter's profits can therefore only be subject to tax abroad;
Profits are immediately taken by the head office;	Luxembourg parent company is subject to tax on profits paid to it by the subsidiary in the form of dividends or interest;
A branch office is not really in position to conclude agreements with the parent company as they are one and the same legal entity. With the parent company as they constitute one and the same legal entity. Cannot take advantage of any resulting tax deductions;	Potential foreign withholding tax on these dividends or interest can either: be offset against the portion of tax payable in Luxembourg or be: deductible from the taxable amount;
Host country for the branch office may examine the accounts of the company in its entirety in the event of tax audit.	Can choose whether or not to distribute its profits;
	Can repatriate or distribute net profits with low or no withholding tax on the dividends;
	Amounts invoiced by a parent company to its subsidiary are deductible;
	Under two conditions: management fees, royalties, management fees paid to associated companies are deductible;
	European Interest and Royalties directive enables all interests or royalty payments between associated companies to be completely exempt from all withholding tax;
	Under certain conditions the subsidiary and its parent company can benefit from the tax consolidation regime allowing profits to be netted against losses in the same tax year.

TYPES OF SUBSIDIARIES (and its characteristics)

	Sole Proprietorship (self-employed)	Limited Liability Company (S.à.r.l.)	Simplified Limited Liability Company (S.à.r.l.-S)	Public Limited Company (S.A.)
Incorporation	-	Notarial deed	Notarial or private deed	Notarial deed
Legal personality	No legal personality. Entrepreneurs legal personality as natural person	Distinct legal personality from the shareholders.	Distinct legal personality from the shareholders.	Distinct legal personality from the shareholders
Minimum starting capital	-	12.000.-€	From 1.-€ to 11.999.-€	30.000.-€
Legal obligations	-	Annual accounts registered within the Luxembourg Business Register	Annual accounts registered within the Luxembourg Business Register	Annual accounts registered within the Luxembourg Business Register
Taxation	Personal income tax & communal business tax (ICC)	Corporate income tax (IRC) Communal business tax (ICC) Net wealth tax (IF)	Corporate income tax (IRC) Communal business tax (ICC) Net wealth tax (IF)	Corporate income tax (IRC) Communal business tax (ICC) Net wealth tax (IF)

TAXES

CORPORATE TAX

The corporate income tax has been set in 2020 between 15 and 17% depending on the company's profit according to the commercial balance sheet. An additional charge of 7% is levied on corporate income tax as a contribution to the employment fund. A communal business tax between 6% and 12%, depending on the municipality, applies to corporate companies. In addition, companies need to pay a net wealth tax based on the total assets and structure of the balance sheet ranging from €535 to €32,100 per year (the wealth tax is not applied to sole proprietorship).

Companies must fulfill their tax obligations, irrespective of whether the taxes levied are direct or indirect, or whether it is a tax or duty.

In Luxembourg, 3 departments are responsible for enforcing tax legislation:

- The Registration Duties, Estates and VAT Authority (Administration de l'enregistrement, des domaines et de la TVA - AED);

- The Luxembourg Inland Revenue (Administration des contributions directes - ACD);
- Where applicable, the Customs and Excise Agency (Administration des douanes et accises - ADA).

All companies established in Luxembourg, regardless of their legal form, are subject to Luxembourg taxation and the general principles applicable thereto.

Certain taxes apply to all the legal forms:

- Communal business tax;
- Net wealth tax;
- Property tax;
- Certain taxes (on vehicles in particular);
- Indirect taxes: VAT, customs and excise duties.

Other types of taxes apply according to the legal structure of the business:

- Sole proprietorships and partnerships are subject to income tax;
- Capital companies are subject to corporate income tax

LUXEMBOURG VAT RATES

The standard VAT rate applicable to the provision of services in Luxembourg is at 17%. It is the lowest in the European Union. Companies that are subject to VAT need to make an initial declaration to the Indirect Tax Authority in order to receive a VAT identification number.

PERSONAL INCOME TAX RATE

Workers in Luxembourg are granted a tax class based on their personal situation.

The three tax classes are as follows:

CLASS 1

- Married taxpayers who have opted for separate taxation;

- Single people;
- Some married non-resident taxpayers;

CLASS 1A

- People aged at least 65;
- Single parents with a dependent child;

CLASS 2

- Married taxpayers;
- Widowed taxpayers (for the first three years after the death of the spouse);
- Divorced or separated people (for the first three years);
- Civil partners;
- Some married non-resident taxpayers.

Luxembourg's income tax rate for natural persons is one of the lowest in Europe, particularly for couples. Income tax is based on 23 tax brackets and the highest marginal tax rate amounts to 42% since 2017. According to the OECD, a married couple with two children and two salaries (100% and 67% of the average salary, respectively) will be taxed at a total rate - including social security contributions - of 26%.

This guide has been prepared by Q Consulting, with an intention of providing an overview of the Luxembourg Investment Scenario.

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