



Independent legal & accounting firms

Doing Business in Luxembourg

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MSI's guide on Doing Business in Luxembourg provides current information about the financial, regulatory and legal considerations that could affect business dealings within Luxembourg. For further assistance please contact our MSI member firms in Luxembourg.

Country overview

Population

The Grand Duchy of Luxembourg is a Founding Member of European Union (at that time Benelux) and has a population of 672.000 inhabitants, out of which almost 50 % does not hold the Luxembourg nationality. About 230.000 foreigners commute every day from neighbor countries, i.e., Belgium, France or Germany to work in Luxembourg.

The country has a total area of 2,586 km².

Government

The Grand Duchy of Luxembourg is a representative democracy in the form of a constitutional monarchy. It is the only Grand Duchy in the world and the Grand Duke is its Head of State.

According to the constitution, the Grand Duke holds the executive power and assures the execution of the laws by taking the necessary regulations. In practice, this task is performed by the government, which consists of a Prime minister and several members.

Since 7 October 2000, Grand Duke Henri has been the Head of State, and the government is currently chaired by Mr. Luc Frieden. Grand Duke Henri is 69 years old. During the country's annual celebration on June 23, 2024, Grand Duke Henri announced his decision to hand over the reins to his eldest son, Guillaume, and thus gradually abdicates.

Languages

Most of Luxembourg's citizens speak four languages, and three of them have the status of official languages in the administrative communications i.e.

Luxembourgish, French and German. Accordingly, official websites (State, Tax administration and tax forms online) exist in French and German as well as English too for most of them.

Notarial deeds (incorporation of companies or real estate transactions) may be issued in French, English or German.

Portuguese, Italian are quite popular languages, and due to foreign population living in Luxembourg, Spanish, Polish, Swedish, Finnish, or other languages are quite often heard. This large mixture of languages ensures that Luxembourgers and foreigners living in Luxembourg, can easily communicate and so avoid social exclusion based on language.

Luxembourg boasts a diverse educational landscape with international schools such as Lycée Vauban (French school) and the European School (offering education in each EU language). Within the public education system, secondary schools follow a classical system where various subjects are taught in both French and German (a combination of both languages). Additionally, some high schools have introduced English sections following the British curriculum. This allows children from foreign families to receive an education tailored to their needs.

Currency

The national currency is the Euro.

Economic summary

GDP: **€79,31 billion (2023)**

Income per capita: **€118.770 (2023)**

Inflation: **avg. 2.29 % for 1991 – 2024**

Country debt: **€20,359 billion (2023)**

Ratio DEBT / GDP: **25,7 %**

Source: countryeconomy.com

Main sectors of the economy

The economy of Luxembourg is amongst the most dynamic in Europe and one of the most open in the world. In global rankings about territorial competitiveness, digitalisation and innovation, it regularly ranks in the top 10.

Moreover, it is considered to be the economic powerhouse of the Greater Region, territory that includes the close area of the neighboring countries (France, Belgium, Germany). Even though its financial Centre remains the main sector of its economy, the country has made a lot of efforts and investments to ensure diversification of its economy. As a result, Luxembourg is today a logistics hub, as well as a leader in satellite technology and digitalization. All of this is made possible day in day out by a motivated and productive international workforce.

Luxembourg is rated AAA by Standard & Poors as well as DBRS Ratings Limited and is the perfect European hub for international investors (including non-EU based) in a competitive tax environment.

In today's world of globalisation, it is increasingly important for companies which operate internationally to assess the attractiveness of countries or markets. In this aspect, Luxembourg has much to offer. Comparison with other countries illustrates its appeal as a place to do business and its excellent performance in many business areas.

What makes Luxembourg to stand apart is that it combines several very different attributes to make it a special place. Luxembourg has a stable political environment with a well-deserved and strong reputation for having a pro-business legislation and administration.

Luxembourg has an access to a market of over 100 million consumers within a 250 km radius; it has an excellent basic infrastructure and logistical network and a high-performance communication network at competitive rates, a multilingual workforce speaking at least 2 or 3 languages (German, French and English are widely spoken), attractive tax legislation and social security system for companies, employers and employees, lowest VAT rates in Europe, sound macroeconomic fundamentals and excellent quality of life.

Setting up a business

Requirement

Any company, regardless of its legal form (sole proprietorship or commercial company), that engages in commercial, craft, industrial activities, or one of the liberal professions covered by the law, and which establishes itself in Luxembourg, must have an establishment permit. This is obtained by a request in the form of a file to be submitted to the Ministère des Classes Moyennes or any other authority designated by law.

Legal forms

Luxembourg knows many legal forms of entities that have or not the legal personality. Each form provides for different specifications in order to offer to foreign investors all possible options to draft their articles of association.

Most usual forms of legal entities are the Public Limited Company (Société Anonyme), the Limited Liability Corporation (Société à Responsabilité Limitée), the Limited Partnership by Shares (Société en Commandite par Actions), the Special Limited Partnership (Société en Commandite Spéciale) or the Civil Company (Société Civile). A branch of a foreign entity may also be set up in Luxembourg.

A deed of incorporation may be published in French or German. It may also be drafted in English, and then a French or German translation will have to follow the English version; in such case it may be foreseen that the English version will prevail on the other version.

Limited Liability Corporations have a minimum capital of 12.000 EUR whereas a Public Limited Company require a capital of 30.000 EUR minimum. There is no restriction as to the residence or nationality of shareholders or directors of a Luxembourg corporation, and no prior authorization for the set-up of a Luxembourg corporation is needed except for specific activities (business offered to the public or activities ruled by a law). Those corporation forms are used for holding activities or commercial activities.

Limited Partnership by Shares and Special Limited Partnership are legal forms used mainly for collective investments structures where investors will be the limited partners contributing funds that will be managed by a general partner. Those legal forms may also be used to a certain extend as a substitute to a trust to organize inheritance planning.

Civil companies are used for the holding of private family assets with a possible dismemberment of ownership rights of the shares to organize inheritance planning.

Share capital of a company can be in a currency other than Euro.

Process of how to set up a company

A corporation (SA, SARL, SECA, SAS, ...) can only be incorporated by a notarial deed, except for the SARLs (simplified Limited Liability Corporation) that is meant for small starting businesses with 1 EUR share capital. Civil companies, individual entities or partnership (SC, SCS, SCSp, ...) may be incorporated by a private deed filed with the Registry.

A branch is incorporated by registration with the Registry of Commerce.

Financial year for taxation and financial accounts

Taxation is due annually and is based on calendar year.

Typical year is the calendar year, but a different period may be elected.

Accounting and auditing

Internal auditor is required for some legal forms of corporation, whereas external auditor is required for entities under supervision of the CSSF (authority in charge of the financial sector surveillance) or when criteria for large companies or groups are met. Draft law is currently prepared to amend the above.

Economic and fiscal incentives

Tax incentives are available for specific activities such as intellectual property assets (patents or assimilated) that are developed in or through Luxembourg (Nexus approach) allowing as much as 80 % of income (royalties or gain upon sale) derived from such asset to be tax exempt.

Specific allowances are granted for investments or reinvestment of the gain realized upon the sale of certain assets in the acquisition of a similar asset.

Golden visa or citizenship by investment

Any individual coming from outside EU who plans to make any of the following investments can apply for an investors' residence permit:

- **Business investment:** the investor will contribute at least EUR 500.000 in a company that will count at least five employees
- **Management of assets:** Investment of at least EUR 3 million in a management and investment structure
- **Deposit at bank:** this means a deposit of funds with a Luxembourg bank of at least EUR 20 million and the investor commits to maintain such deposit for 5 years minimum.

The residence permit is issued initially to the investor and his family members for 3 years (which may be extended).

The residence permit granted to family members of foreign investors grants them the right to education, vocational and professional training, as well as the right to employment or self-employed work with free movement in the Schengen area. The Schengen agreement for free movement entered into force on 26th March 1995 and includes 22 EU Member States and 4 countries of EFTA. It was named like the Luxembourg village of Schengen where it was signed in 1985.

As a general rule, any EU citizen may relocate to Luxembourg; no need to invest for a golden visa.

Incentives for individuals relocating to Luxembourg

Inpatriate regime: Luxembourg offers a specific inpatriate regime for highly skilled and qualified workers

This regime provides for some tax advantages including deduction of relocation costs and others such as school fees, accommodation costs, trip cost once a year from Luxembourg to the employee's home country, and a 50 % exemption of the inpatriate premium. The inpatriate premium is a lump sum allowance granted to compensate for the difference that the inpatriate employee suffers between the cost of living in his country of origin and the cost of living in Luxembourg.

Such advantages will last for the time of the employee's assignment, and no longer than eight tax years following the year during which the employee started his employment in Luxembourg.

Tax Step-Up: The purpose of the tax step-up is to ensure that an individual relocating to Luxembourg is not taxed on a gain that existed prior to his / her move when the latter sells any asset that was held before relocation. In this context, the tax step-up serves as the counterpart to the exit tax, which should have been assessed when the individual left their previous country of tax

residence. Consequently, individuals moving to Luxembourg benefit from a tax step-up. This means that all their substantial participation held at the time of arrival in Luxembourg will be valued at their market value for tax purposes. Accordingly, the capital gain subject to tax will be limited to the part of the gain between the day of the transfer of domicile and the date of sale.

Taxation

The tax system is an important criterion when it comes to companies finding a country of establishment. Tax certainty is also important.

In Luxembourg, it is possible to obtain advance certainty regarding the fiscal qualification of transactions carried out by corporate structures in the form of so-called Advance Tax Rulings. It is worth noting that those rulings are communicated to foreign tax authorities within EU.

In addition, Luxembourg has also signed tax treaties with many other countries to prevent the occurrence of double taxation.

This vast network of tax treaties offers instruments for international tax planning, but always subject to EU anti abuse rules.

VAT

Individuals or corporate entities are subject to VAT if they carry out operations relating to any economic activity independently and on a regular basis, whatever the purpose or results of that activity are and whatever the location is.

Usually, VAT registration is admitted for commercial activities, and in some cases for lending or patent linked activities.

Currently, 4 rates apply in Luxembourg:

- a standard rate of 17% for taxable transactions other than those referred to below;
- an intermediate rate of 14% for transactions relating to certain

goods and services designated in Annex C to the VAT Law (wine, wood and other solid fuel for heating, ..);

- a reduced rate of 8% for transactions relating to the goods and services designated in Annex A to the VAT Law (heating, electricity, plants, hairdresser, ...) as well as for certain works of art;
- a super-reduced rate of 3% for transactions relating to the goods and services designated in Annex B to the VAT law (typically food, books, children clothing, liquid gas for heating and engines, some works in the main residence, ...);

Income tax

Individual income taxation

For individuals, Luxembourg knows a progressive income tax system with rates that start at 8 % for an annual taxable income of 12.438 EUR and going up to 42 % for an annual taxable income exceeding 220.788 EUR. The rate increase for the contribution to the Employment Fund raises the overall effective tax rate to a maximum of 45.75% for incomes exceeding EUR 220.788.

Annual taxable income is determined as being the gross annual income summing up all different incomes of the year, from which tax-exempt income, deductible charges and special allowances are deducted.

Individual private status is also taken into account for the determination of income taxation by way of classes of taxation that gather people according to their situation (married, separated, widow, with or without children, etc...).

As mentioned above under "Incentives for individuals relocating to Luxembourg", inpatriates enjoy a special additional allowance and tax exemption in respect of their specific charges connected to their relocation to

Luxembourg. That regime is however subject to specific conditions connected to their high level of competence and the need of those for the firm employing them.

All incomes of a resident taxpayer are taxed in a single annual return, but salaried income is subject to an anticipated withholding of tax which is then offset against the final taxation determined when filing the annual return. For non-resident taxpayers, the tax withheld during the year may be final unless such taxpayer files a return at the end of year. For instance, when such taxpayer has charges to be deducted from his Luxembourg salary income and therefore is willing to claim refund of an excess of tax withheld at source during the year. Such filing of a return is mandatory for non-resident taxpayers who elect to be taxed as resident taxpayers (subject to specific conditions) or when they collect an income other than a salary and that is taxable in Luxembourg.

Taxation of income derived from securities

Interest income (term deposit or bonds) is subject to a 20% withholding tax (final taxation unless the taxpayer considers having deductible charges that would lead to a refund of that withholding tax), while dividends are subject to the progressive income tax rate after a 50% allowance.

Some income may be taxed by reference to what is called "overall rate" which is the average tax rate for the total of income of the taxpayer for the year considered. This is the case for short term gains on the sale of securities, or the sale of an important stake (10 % or more participation).

Long term gains on securities (over 6 months) are tax exempt for individuals.

Capital gain realized upon disposal of Luxembourg real estate:

If the real estate was the taxpayer's main residence, there will be no tax on the gain upon sale. For other real estate held by an individual in Luxembourg, the gain realized upon sale will be taxed at the ordinary progressive rate if the sale

occurs within two years of acquisition. If the sale occurs more than five years after acquisition, the gain will be taxed at half the overall rate. In 2024, there is a special tax regime for gains on the disposal of real estate held for more than two years; however, this regime will no longer apply starting January 2025.

Tax allowance

Before taxation as above, the capital gain on securities is subject to an allowance of 50,000 euros (doubled for spouses/partners taxed jointly). Such deduction is reduced by the allowances granted to the taxpayer over the 10 years preceding the tax year in which the capital gain on the sale of shares or real estate is realized.

Corporate income tax

Luxembourg tax system provides for a combined taxation made of Corporate Income Tax, Municipality Tax and Net Worth Tax. The global rate reaches 24,94 % for companies established within the municipality of Luxembourg. Rates may slightly vary from a municipality to another.

Registration procedures

Filing of annual returns or for withholding taxation (tokens, dividends, etc ...) is mainly made by electronic way.

Participation exemption

Exemption of tax is provided to corporations under specific conditions to income derived from holding activities known as "Soparfi" regime. We call "Soparfi" corporations falling under the scope of the EU Parent Directive as transposed in Luxembourg tax legislation and offering the benefit of a tax exemption on dividend and capital gains derived from a qualified participation. A participation will generally qualify for that tax regime when it is important and stable, i.e. it represents 10 % of share capital held for 12 months in another corporation subject to a normal tax regime in its country of residence. The income concerned by such exemption are dividends and the gain realized upon the sale of the qualified participation. The very attractive and flexible regime explains the huge amount of holding

companies or group headquarters that have been established in Luxembourg.

Beside the Soparfi, Luxembourg also has a specific regime for individuals willing to lodge their portfolio of securities, which is called Private Wealth Management Company (SPF - "Société de Gestion de Patrimoine Familial"). Provided that such corporation is held by or on behalf of individuals and has its purpose strictly limited to the holding and management of a portfolio composed of cash and securities, it will enjoy a full tax exemption. However, the SPF pays an annual duty of 0,25 % calculated on the sum of share capital + share premium + amount of debt that exceeds eight times the total of capital + share premium. The annual duty cannot exceed 125.000 EUR per year.

Withholding taxes

The most common withholding tax is dividend tax with a rate of 15%. Within the European Union the dividends are generally tax free under the participation exemption.

The same may apply to other countries, depending on the tax-treaty.

For resident individuals, a 20% withholding taxation applies to interest they collect from resident paying agents as a final taxation.

HR/ Labor Law

Employment law

An employment agreement may be agreed for an indefinite or fixed period of time. Fixed period may not exceed 24 months (including renewal).

If an employment agreement for a fixed period of time is extended for more than the legal limitation, a new agreement will then be deemed to have been entered into under the same conditions and but for an indefinite period of time.

Limit of 24 months does not apply to certain sectors or kind of employment agreement (e.g. seasonal jobs, state division employment, education)

Termination of employment

Labor agreement includes a probationary period which is a trial period at the beginning of the execution of the employment contract (whether permanent or fixed-term).

The trial period will depend on the level of education, and the salary of the employee, and will not exceed 12 months.

During this period, the employer and the employee can terminate the labor agreement quickly and without compensation. Apart from a case of gross negligence, the notice period will vary according to the trial period agreed in the labor agreement, with a maximum of 1 month (for a trial period ranging from 8 to 12 months). Notice period may not terminate after the end of the trial period.

Termination by employee

After the trial period and except in the case of gross misconduct by the employer, the **employee** must observe a notice period that depends on the employee's duration of occupation with the company:

- less than 5 years: 1 month;
- between 5 and less than 10 years: 2 months;
- 10 years or more: 3 months.

Termination by employer

After the trial period and except in the case of gross misconduct by the employee, the **employer** must observe a notice period that depends also on the employee's duration of occupation with the company:

- less than 5 years: 2 months;
- between 5 and less than 10 years: 4 months;
- 10 years or more: 6 months.

Social security

What makes Luxembourg different from many other countries in the world is its social security system, which is one of the most advantageous and most complete system in Europe and in the world. The protections that

are provided by the Luxembourg social security system are as follows, i.e.:

- Sickness
- Maternity
- Accidents at work
- Invalidity
- Unemployment
- Family benefits
- Retirement

In Luxembourg every employer and employee are subject to mandatory social contribution in favor of the Social Security administration. Employer withholds the contribution from the salary and pays it on behalf of the employee to the Social Security administration.

Rates

The percentage of the contribution depends on the activity and the status of the employee.

For self-employed workers the amount of the contributions that need to be paid is generally equal to the sum of the employee and employer contribution corresponding to their activity or class of risk.

The rates of social contributions for an employee are as follows, i.e.:

	Employee's share	Employer's share
Health insurance	3,05 %	3,05 %
Pension insurance	8 %	8 %
Dependency insurance	1,4 %	-
Health at work	-	0,13 / 0,14 %
Work accident	-	0,675 % to 1,125 %

Employers mutual scheme	-	0,6 % to 2,98 %
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Source: FEDIL.LU – rates as from 2022

The maximum amount of salary subject to the withholding of social security contribution is equal to 5 times the minimum social salary which amounted to 2.570,93 EUR (monthly) as from January 2024. Amounts of salary above that threshold are no longer subject to social security taxation, except for the small 1,4 % dependency insurance.

Pension

As a general rule, the age the pension is 65 years with some exceptions for people who may terminate earlier their occupation by their own decision.

Payroll

When starting a business and employing staff, the company must register with the tax authorities as well as the social security administration.

Wage tax and social security are withheld at source by the employer and then paid to each administration.

Visa and work permits

All EU citizens may work freely anywhere in the EU without a special working permit or visa. If an EU national from outside Luxembourg is employed in Luxembourg, he/she will be registered with the tax and the social security administration in Luxembourg.

Non-EU citizens must apply for a visa for work before taking employment in Luxembourg.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Luxembourg should seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Luxembourg to discuss your requirements:

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