

Administrative requirements

Tax returns

- CIT, MBT and NWT returns – submission by May 31st of the following fiscal year.
- Self-assessment for capital companies (Taxation definitive after a 5 years term of limitation).

Tax payments

Advances payable quarterly:

- CIT: 10th March, 10th June, 10th September, and 10th December.
- MBT and NWT: 10th February, 10th May, 10th August, and 10th November.

Taxes assessed are payable within one month of notification by the tax authorities.

Deferment of Tax payment

Delay	Interest
≤ 4 months	None
5 to 12 months	0.1% per month
13 months to 3 years	0.2% per month
> 3 years	0.6% per month

Penalties

- Failure to pay or late payment: interest charge of 0.6% per month.
- Failure to submit tax return or late submission: 10% of tax due and a fine up to a maximum of € 1,239.47.

Withholding Taxes

Type of income	Rate
Dividends	15% of gross dividends (unless parent-subsidiary scheme applies; exemption or reduced rate possible with tax treaty countries)
Interest	0% unless EU Savings Directive applies or payments made to Luxembourg resident individuals
Royalties	0% (with some exceptions)
Liquidation proceeds	0%
Director's fees	20% of gross fees paid to resident or non-resident directors

VAT

Tax rates applicable

Rate	Goods and services
15%	Standard rate
12%	Management and safekeeping of securities, publicity and marketing printed matter, etc.
6%	Gas, electricity, etc.
3%	Radio and television broadcasting services, hotels, food products, books, newspapers, etc.

Return periods

- Monthly returns and annual summary return if annual turnover exceeds € 620,000,
- Quarterly returns and annual summary return if annual turnover is between € 112,000 and € 620,000,
- Single annual return if annual turnover is less than € 112,000.

Submission of returns and VAT payments

Type of return	Legal deadline
Monthly return	Before 15 th of following month
Quarterly return	Before 15 th of month following quarter-end
Single annual return	Before March 1 st following year end
Recapitulative annual return	Before May 1 st following year end

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Tax Company guide 2009 An overview on Luxembourg tax legislation



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Corporate Income Tax (CIT)

Taxable base

CIT is calculated based on the profit according to the commercial balance sheet. Certain types of income are exempt and certain charges are non-deductible.

Exempt income

• Parent-subsidiary exemption

Dividends or capital gains received by a Luxembourg entity from a shareholding will be exempt from Luxembourg corporate income tax and municipal business tax if:

- The entity receiving such income holds or commits to hold directly or indirectly this shareholding for an uninterrupted period of at least 12 months,
- The shareholding threshold does not fall below either a 10% participation or a € 1.2 million acquisition price (€ 6 million for capital gains) throughout the period,
- The qualifying recipient and distributing/diposed entities are listed in article 166 of the Income Tax Law (ITL) and within the Grand Ducal Decree dated 21st December 2001.

• Exemption from withholding tax

Dividends distributed by a Luxembourg entity will be exempt from Luxembourg withholding tax if:

- The entity receiving such income holds or commits to hold directly or indirectly its shareholding in the Luxembourg entity for an uninterrupted period of at least 12 months,

- The shareholding threshold does not fall below either a 10% participation or a € 1.2 million acquisition price, throughout the period,
- The qualifying recipient and distributing entities are listed in article 147 ITL. This regime has been widened as from 1st January 2009 and now applies to fully taxable parent companies, resident in a country holding a tax treaty with Luxembourg and subject to a tax similar to the Luxembourg CIT.

• Exempt income due to double tax treaty provisions

Usually provide for exemption of dividends, interests, royalties, capital gains on share disposal, foreign branch and real estate income, etc.

• Exemption of dividends

An exemption of 50% is granted on the dividend income received from a resident fully taxable capital company, a company falling within the scope of the Parent Subsidiary Directive, or a capital company resident of a state, with which the Grand Duchy has a double tax treaty and which is subject to a tax corresponding to the Luxembourg CIT.

• Exemption of intellectual property income

80% of income resulting from the exploitation of intellectual property rights acquired or registered after December 31st, 2007 and 80% of the capital gains arising from such assets are exempt.

Non-deductible expenses

- Directors' fees,
- Non-deductible taxes (CIT, MBT, NWT),
- Expenses in connection with exempt income,
- Fines, etc.

Other deductions

- Losses carried forward indefinitely (but not carried back) without any amount restriction,
- Gifts and donations, etc,

Tax rate applicable

Taxable income (€)	Rates (increased by a 4% unemployment fund contribution)
< 15.000,00	20% (20.8%)
> 15.001,00	21% (21.84%)

Tax reliefs

- Foreign withholding taxes,
- Credit for audiovisual or venture capital investments,
- Credit for hiring unemployed individuals,
- Credit for investment in continued professional education,
- Investment tax credit,
- Incentives for research & development, etc.

Municipal Business Tax (MBT)

Taxable base

MBT taxable income is calculated broadly on the same basis as CIT. The tax basis is 3% of the adjusted taxable income. There is an allowance which amounts to € 17,500 for entities liable to CIT and € 40,000 for other businesses.

Tax rate applicable

The MBT rate changes according to the municipality in which the undertaking is located. The rate for Luxembourg city is 225% giving an overall MBT rate of 6.75% (3% X 225%).

Effective Income Tax Rate

28.59% including CIT, MBT (for Luxembourg city) and contribution to the unemployment fund.

Capital Duty

Capital duty has been abolished as from 1st January 2009. No clawback would be applicable on an exempted transaction prior to that date even if the 5-year holding period required to benefit from the capital duty exemption is not met by the acquiring company.

Net Worth Tax (NWT)

Taxable base

The unitary value of the company is determined mainly by reference to the net worth of the enterprise. This is based on fair market value of the assets and liabilities adjusted for certain exemptions (e.g. shareholdings qualifying for the participation exemption regime, certain intellectual property assets) and certain special valuations fixed by law (e.g. for buildings).

Tax rate applicable

0.5%.

Tax reduction

Reduction in NWT is possible if the taxpayer commits, before the end of the accounting period, to the creation of a reserve (booked in the commercial accounts) to be maintained for at least 5 years. The tax reduction amounts to a fifth of the reserve and cannot exceed the amount of CIT liability before imputation of tax credits.

Tax treaty network

Luxembourg has 52 treaties in force and 21 other agreements under negotiation or awaiting approval of the Luxembourg Parliament or the foreign country. Luxembourg is one of the few countries who have concluded a double tax agreement with the Hong Kong Special Administrative Region.