

# Luxembourg

## Contacts

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### What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

In the context of COVID-19, the Luxembourg government has launched a series of provisional measures in 2020 aimed at supporting enterprises in these difficult times.

### Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
<b>IP box regime</b>	Adjusted and compensated net qualifying IP income is 80% exempt from the corporate taxable base	80%	The exemption applies on net adjusted and compensated income, not on expenditure.  Qualifying income includes IP income on (i) patent and equivalent rights, extensions of patent protection for certain drugs and phyto-pharmaceutical products, plant breeder's rights, and orphan drug designations, and (ii) copyrighted software	The OECD nexus approach has been adopted  IP assets must be created, developed, or improved after 31 December 2007
<b>R&amp;D projects or programs</b>	Financial aid in the form of a subsidy is available for companies and private sector research organizations that carry out R&D projects and innovation initiatives. The aid can cover a percentage of the eligible costs, depending on the size of the company and the type of project or program	Varying from 25% to 100%	All costs directly related to research, development, and Innovation (RDI): payroll expenses, expenses for instruments and equipment to the extent and for the period they are used for the project or program, expenses for buildings, expenses for contract research or research services, additional overhead and other operating expenses	
<b>Tax credit for investment</b>	The tax credit for investment is divided into two parts: <ul style="list-style-type: none"><li>• A tax credit for global investment; and</li><li>• A tax credit for complementary investment</li></ul> As from 1 January 2018, the tax credit for total investment was extended to include the purchase of IT software from third parties	Tax credit for global investment: The rate of relief is 8% for the first tranche of EUR 150,000 and 2% for the remainder of the investment  Tax credit for complementary investment: The rate of relief is 13%  As from 1 January 2018, the relief for the purchase of IT software from third parties is limited to 10% of the tax owed during the year of purchase; the unused portion may be carried forward for 10 years (as for other credits)	The tax credit for global investment is applicable to all qualifying investments made during the year  The tax credit for complementary investment is applicable to the net growth of the investment compared to earlier years	The income tax law provides for tax relief, upon request, for investments in certain depreciable tangible assets. Some assets (i.e., buildings, some motor vehicles, second-hand goods, or assets depreciable over a period of less than three years) are excluded from the regime  A taxpayer cannot simultaneously benefit from the tax credit on the purchase of software and the IP box

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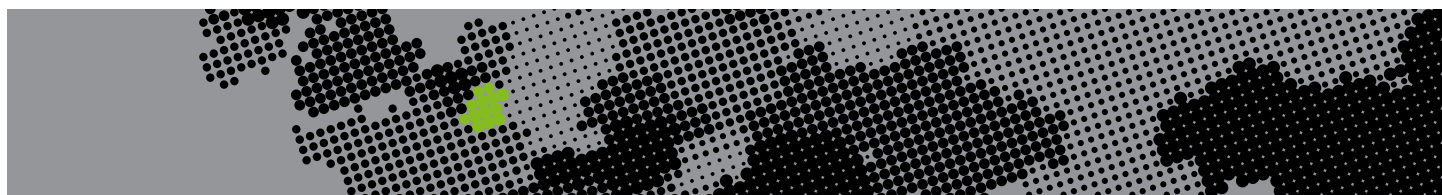
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### Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	● Banking & Capital Markets
● Technology	● Insurance
Consumer	● Investment Management
● Consumer Products	Real Estate
● Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
● Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
Power & Utilities	Health & Social Care
Mining & Metals	Defense, Security & Justice
Oil, Gas, & Chemicals	Civil Government
Industrial Products & Construction	International Donor Organizations
	Transport



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Type	National incentive?	State, provincial, regional or local incentives? <sup>1</sup>	Filing deadlines imposed?	Is the claim made in advance or arrears? <sup>2</sup>	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
<b>Innovation</b>							
<b>Research &amp; Development (R&amp;D):</b> Tax credit for software	●	●	●	National: Arrears Local: Not applicable	<ul style="list-style-type: none"> <li>All companies are eligible</li> <li>The tax credit applies to the purchase of IT software from third parties. The tax credit is computed based on the purchase or cost price of the investments acquired during the year</li> </ul>	The rate of relief is 8% for the first tranche of EUR 150,000 and of 2% for the rest of the investment. The relief is limited to 10% of the tax owed during the year of purchase and the unused part may be carried forward over a 10-year period (as for other credits)	The rate of relief is 8% for the first tranche of EUR 150,000 and of 2% for the rest of the investment. The relief is limited to 10% of the tax owed during the year of purchase and the unused part may be carried forward over a 10-year period (as for other credits)
<b>Patent box</b>	●	●	●	National: Arrears Local: Not applicable	<ul style="list-style-type: none"> <li>Individuals, whether resident or nonresident in Luxembourg, carrying out a commercial activity in Luxembourg, Luxembourg joint stock resident companies, and Luxembourg permanent establishments of foreign companies are eligible</li> <li>Exemption of 80% of adjusted and compensated net IP income multiplied by a nexus ratio (i.e., qualifying expenditure divided by overall expenditure)</li> </ul>	80% of net compensated and adjusted IP income	80% of net compensated and adjusted IP income
<b>R&amp;D grant (EU)</b>	●	●	●	Advance	<ul style="list-style-type: none"> <li>All companies are eligible</li> <li>Benefits vary</li> </ul>	Up to 100% funding	Up to 100% funding

Key: ● = PERMANENT INCENTIVE (■) = TEMPORARY INCENTIVE (■) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

### Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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<b>Innovation (continued)</b>							
<b>R&amp;D projects or programs</b>	●	●	●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>All companies and private research organizations established in Luxembourg in connection with experimental development/fundamental research/industrial research are eligible</li> <li>The aid is granted in the form of a capital subsidy or recoverable advance and covers activities related to industrial/fundamental research and/or experimental development programs or projects. Qualifying expenses include payroll costs, expenses incurred for instruments and equipment, expenses for buildings, expenses for contract research and research services, additional overhead, and other operating expenses</li> </ul>	Up to 100% of qualifying costs, depending on the type of research	Up to 100% of qualifying costs, depending on the type of research
<b>Other Innovation Incentives:</b> Aid for process and organizational innovation	●	●	●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>All companies and private research institutes based in Luxembourg in connection with process innovation/organizational innovation are eligible</li> <li>The aid is granted in the form of a capital subsidy or recoverable advance and covers projects aimed at innovating processes and organization. Admissible costs include payroll expenses, expenses of instruments and equipment, expenses for buildings, expenses for contract research and research services, additional overhead, and other operating expenses</li> </ul>	15% of qualifying costs if effective collaboration with an SME	50% of qualifying costs
<b>Aids for research, development and innovation for craft and commercial SME</b>	●	●	●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>SMEs are eligible</li> <li>The aid is granted in the form of a capital subsidy or interest subsidy and covers fundamental research, applied research, and pre-competitive development activity. Qualifying investment include the acquisition cost or depreciation of some assets (e.g., land, constructions, instruments) that are exclusively used for research or development, payroll expenses, advisory services or similar services, other current expenses, and additional overhead</li> </ul>	Not applicable	75% of qualifying investment. The aid may be increased under certain conditions

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<b>Investment</b>							
<b>Capex:</b> Accelerated depreciation	●	●	●	National: Arrears  Local: Not applicable	<ul style="list-style-type: none"> <li>All companies are eligible</li> <li>Accelerated depreciation may be taken only on materials and equipment used exclusively for scientific or technical research activities</li> </ul>	The rate of depreciation may not exceed four times the rate that would apply for straight-line depreciation and may not be greater than 40%	The rate of depreciation may not exceed four times the rate that would apply for straight-line depreciation and may not be greater than 40%
<b>Capex:</b> Special depreciation	●	●	●	National: Arrears  Local: Not applicable	<ul style="list-style-type: none"> <li>All companies are eligible</li> <li>Special depreciation is applicable to fixed assets acquired or constructed to protect the environment, although it also may be available for fixed assets acquired or manufactured for the implementation of new techniques for the rational use of energy or the implementation of new and renewable energy sources, and the recovery of energy from industrial processes and workplaces created for the disabled</li> </ul>	May not exceed 80% of the acquisition or production costs of the qualifying assets	May not exceed 80% of the acquisition or production costs of the qualifying assets
<b>Capex:</b> Deferred depreciation	●	●	●	National: Arrears  Local: Not applicable	<ul style="list-style-type: none"> <li>All companies are eligible</li> <li>Deferred depreciation offers taxpayers the possibility to defer deductions related to depreciation for wear and tear of fixed assets for a given tax year</li> </ul>	<p>Any carried forward amount must be deducted in full in the year an asset is destroyed, sold, or has reached the end of its normal useful life</p> <p>The maximum amount to be deducted is calculated as follows: [(Acquisition price – salvage value)/years of life of the asset] – depreciation already deducted + depreciation not yet deducted</p>	<p>Any carried forward amount must be deducted in full in the year an asset is destroyed, sold, or has reached the end of its normal useful life</p> <p>The maximum amount to be deducted is calculated as follows: [(Acquisition price – salvage value)/years of life of the asset] – depreciation already deducted + depreciation not yet deducted</p>

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<b>Investment (continued)</b>							
Employment				National: Varies	<ul style="list-style-type: none"> <li>All companies are eligible</li> <li>Various forms, depending on the aid (i.e., tax credit, reimbursement of social security contributions, financial assistance)</li> </ul>	Varies	Varies
				Local: Not applicable			
Training				National: Varies	<ul style="list-style-type: none"> <li>Individuals pursuing certain professional continuing education are eligible</li> <li>Various forms, depending on the aid (i.e., reimbursement of training fees, subsidies)</li> </ul>	Varies	Varies
				Local: Not applicable			
Tax credit for investment				National: Arrears	<ul style="list-style-type: none"> <li>All companies are eligible</li> <li>Tax credit for global investment, which applies to all qualifying investments made during the year. The tax credit is computed based on the purchase or cost price of the investments acquired during the year</li> </ul>	<ul style="list-style-type: none"> <li>Tax credit for global investment: Applicable to all qualifying investments acquired during the year. The rate of relief is 8% for the first tranche of EUR 150,000 and 2% for the rest of the investment</li> <li>Tax credit for complementary investment: Applicable to the net growth of the investment compared to earlier years. The rate of relief is 13%</li> </ul>	<ul style="list-style-type: none"> <li>Tax credit for global investment: Applicable to all qualifying investments acquired during the year. The rate of relief is 8% for the first tranche of EUR 150,000 and 2% for the rest of the investment</li> <li>Tax credit for complementary investment: Applicable to the net growth of the investment compared to earlier years. The rate of relief is 13%</li> </ul>
				Local: Not applicable			

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<b>Environmental sustainability</b>							
<b>Investment aid for environmental protection</b>	●	●	●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>All companies and individuals carrying out a commercial activity in Luxembourg are eligible</li> <li>This aid can be granted in the form of a capital subsidy or interest relief. It covers several types of investments such as investments for recycling or sanitation</li> </ul>	Varies from 5% to 100% of the qualifying investment	Varies from 10% to 100% of the qualifying investment
<b>Other</b>							
<b>Technical feasibility studies</b>	●	●	●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>All companies and private research institutes based in Luxembourg in connection with feasibility studies related to R&amp;D project or programs are eligible</li> <li>This aid can be granted in the form of a capital subsidy or recoverable advance and is related to the technical feasibility study. Admissible costs include payroll expenses, expenses of instruments and equipment, expenses for buildings, expenses for contract research and research services, additional overhead, and other operating expenses</li> </ul>	50% of qualifying costs	Varies from 60% to 70% of qualifying costs depending on the size of the enterprise (medium or small enterprise respectively)
<b>Innovation aid for SMEs</b>	●	●	●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>SMEs and private research institutes based in Luxembourg are eligible</li> <li>This aid can be granted in the form of a capital subsidy or recoverable advance for SMEs. Admissible costs are related to consultancy services, to innovative advisory services (including advisory and support), to the procurement, validation, and defense of patents and other intangible assets, and to the secondment of highly skilled staff</li> </ul>	Not applicable	50% of qualifying costs (up to 100% with a cap of EUR 200,000 for advisory and innovation support services over a three-year period)

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Other (continued)							
Aids for investment in research infrastructures	●	●	● ●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>Research institutes based in Luxembourg and carrying out a commercial activity are eligible</li> <li>This aid can be granted in the form of a capital subsidy, recoverable advance, interest relief, guarantee, or loan. It targets the construction or the modernization of research infrastructures carrying out economic activities. The qualifying investments are intangible and tangible assets</li> </ul>	50% of costs related to investments in intangible and tangible assets	50% of costs related to investment in intangible and tangible assets
Investment aids for innovation hubs	●	●	● ●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>Legal entities operating innovation clusters (cluster organizations) are eligible</li> <li>This aid can be granted in the form of a capital subsidy, recoverable advance, interest relief, guarantee, or loan. It aims to support the construction or modernization of an innovation hub for legal entities operating in innovation clusters. Eligible costs include investment costs in intangible and tangible assets</li> </ul>	50% of intangible and tangible asset costs (there is a regional gross-up of 5% for the districts of Dudelange and Differdange)	50% of intangible and tangible asset costs (there is a regional gross-up of 5% for the districts of Dudelange and Differdange)
Management aids for innovation hubs	●	●	● ●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>Legal entities operating innovation clusters (cluster organizations) are eligible</li> <li>This aid can be granted in the form of a capital subsidy or recoverable advance, aims to support legal entities operating in an innovation hub, and is granted for personnel and administrative costs related to the management and marketing of the cluster</li> </ul>	50% of payroll and administrative expenses (there is a regional gross-up of 5% for the districts of Dudelange and Differdange)	50% of payroll and administrative expenses (there is a regional gross-up of 5% for the districts of Dudelange and Differdange)
Aid for young innovative enterprises	●	●	● ●	National: Advance Local: Not applicable	<ul style="list-style-type: none"> <li>SMEs that are non-listed and that have been registered for five years at most, that have not yet distributed profits, and that are not the result of a concentration are eligible</li> <li>This aid can be granted in the form of a capital subsidy, recoverable advance, or equity capital contribution. All the expenses incurred by the young enterprises during the project are admissible costs (except costs explicitly excluded by national legislation)</li> </ul>	Not applicable	EUR 800,000 (regional gross up of EUR 400,000 for the districts of Dudelange and Differdange)

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### Country Background

The Luxembourg government fosters a proactive entrepreneurial policy, promoting innovation through financing measures. An indicator of its willingness to encourage the technological know-how development and diversification of economic activities is a wide range of beneficial measures relating to R&D and innovation.

In terms of taxation, the tax rate is 24.94%, which includes the corporate income tax, municipal business tax (for Luxembourg City), and the contribution to the unemployment fund.

Over the years, successive governments have worked toward creating a favorable business environment, setting up an efficient legal framework, flexible policies, and easy access to public authorities/administrations but also promoting several government incentives.

Indeed, the government is increasingly keen to attract SMEs and companies to Luxembourg through public funding programs helping them to expand their activities, develop innovative concepts and products, and strengthen their competitiveness overall.

### Innovation Incentives

#### Research & Development (R&D)

##### Nature of incentives

##### Tax credit for investment

The tax credit for investment is divided into two parts:

- A tax credit for global investment, which applies to all qualifying investments made during the year. The rate of relief is 8% for the first tranche of EUR 150,000 and 2% for the rest of the investment; and
- A tax credit for complementary investment, which applies to the net growth of the investment as compared to earlier years. The rate of relief is 13%.

##### Tax credit for software

As from 1 January 2018, the tax credit for global investment also applies to the purchase of IT software from third parties. The relief is

limited to 10% of the tax owed during the year of purchase and the unused part may be carried forward over a 10-year period (as for other credits).

##### IP box regime

A new IP box regime was introduced on 1 January 2018, under which taxpayers may claim an exemption on their tax return of 80% of their adjusted and compensated net IP income multiplied by a nexus ratio (i.e., qualifying expenditure divided by overall expenditure).

##### Accelerated depreciation on R&D assets

Accelerated depreciation may be taken only on materials and equipment used exclusively for scientific or technical research activities. The rate of depreciation may not exceed four times the rate that would be applied under straight-line depreciation and it may not be greater than 40%. Accelerated depreciation is available only for current investments.

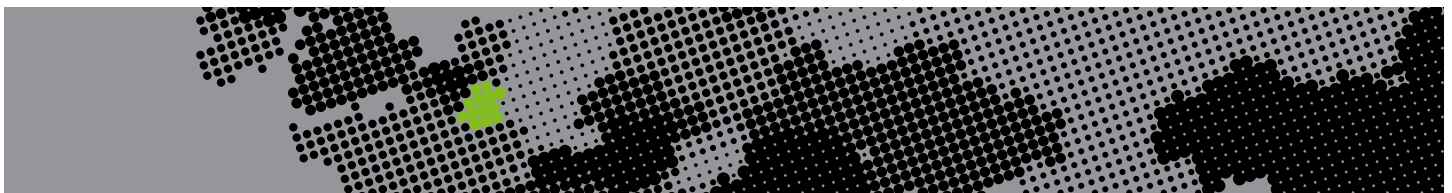
##### Special depreciation on R&D assets

Special depreciation is applicable to fixed assets acquired or constructed to protect the environment, although it also may be available for fixed assets acquired or manufactured for the implementation of new techniques for the rational use of energy or the implementation of new and renewable energy sources, and the recovery of energy from industrial processes and workplaces created for the disabled.

Special depreciation may not exceed 80% of the acquisition or production costs of qualifying assets, and it may be taken in the financial year in which the purchase or manufacture of the fixed assets occurs, during one of the four subsequent years, or on a straight-line basis in installments over five years. Special depreciation is calculated before and, in addition to, standard depreciation for wear and tear.

##### Deferred depreciation

Deferred depreciation offers taxpayers the possibility to defer deductions related to depreciation for wear and tear of fixed assets for a given tax year. Any carried forward amount must be deducted



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in full in the year an asset is destroyed, sold, or reaches the end of its normal useful life. The taxpayer must make a specific request when filing the tax return for the year concerned.

### Eligible industries and qualifying costs

The incentives are open to all industries.

### IP and jurisdictional restrictions

#### Tax credit for investment

Luxembourg income tax law provides for tax relief, upon request, for investments in certain depreciable tangible assets. Some assets (i.e., buildings, some motor vehicles, second-hand goods, or assets depreciable over a period of less than three years) are excluded from the regime.

#### Tax credit for software

The taxpayer cannot simultaneously benefit from the tax credit on the purchase of software and the IP box regime.

### IP box regime

Qualifying assets for purposes of the IP box include the following rights:

- Patents (broadly defined) and functionally equivalent rights that are legally protected by utility models, extensions of patent protection for certain drugs and phyto-pharmaceutical products, plant breeder's rights, and orphan drug designations; and
- Copyrighted software.

Such IP assets must have been created, developed, or improved after 31 December 2007.

The IP box regime is applicable to individuals, whether resident or nonresident in Luxembourg, carrying out a commercial activity in Luxembourg, Luxembourg joint stock resident companies, and Luxembourg permanent establishments of foreign companies.

### R&D projects or programs

Aid can be granted in the form of a capital subsidy or a recoverable advance and covers activities related to industrial/fundamental research and/or experimental development programs or projects. This aid ranges from 25% to 70% of admissible costs depending on the size of the enterprise (large, medium, or small) and on the type of activities (experimental development or industrial research) and a 15% gross-up may be granted for public collaboration or intra-European collaboration (which includes Iceland, Lichtenstein, and Norway). This aid covers 100% of admissible costs for fundamental research.

Qualifying expenses include payroll costs, expenses incurred for instruments and equipment, expenses for buildings, expenses for contract research and research services, additional overhead, and other operating expenses.

### Aid for process and organizational innovation

This aid can be granted in the form of a capital subsidy or recoverable advance and aims to support projects designed to innovate the processes and organization of SMEs, or larger enterprises if they effectively collaborate with an SME. This aid covers 50% of admissible costs (15% for large enterprises effectively collaborating with an SME).

Admissible costs include payroll expenses, expenses of instruments and equipment, expenses for buildings, expenses for contract research and research services, additional overhead, and other operating expenses.

## Environmental Sustainability Incentives

### Investment aid for environmental protection

This aid can be granted in the form of a capital subsidy or interest relief to any enterprises and individuals authorized to perform a commercial activity in Luxembourg. It covers several types of investments, such as investments for recycling or sanitation. The amount of the aid can vary from 5% to 100% of the qualifying investment, depending on the financed project and the type of enterprise.

## Other Incentives

### Technical feasibility studies

This aid can be granted in the form of a capital subsidy or recoverable advance and is related to a technical feasibility study. The aid varies from 50% to 70% of admissible costs depending on the size of the enterprise (large, medium, or small).

Admissible costs include payroll expenses, expenses of instruments and equipment, expenses for buildings, expenses for contract research and research services, additional overhead, and other operating expenses.

### Innovation aid for SMEs

This aid can be granted in the form of a capital subsidy or recoverable advance for SMEs and is capped at 50% of admissible costs (up to 100% with a cap set at EUR 200,000 for advisory and innovation support services over a three-year period).

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Admissible costs are related to consultancy services, to innovative advisory services (including advisory and support), to the procurement, validation, and defense of patents and other intangible assets, and to the secondment of highly skilled staff.

### Aids for research, development, and innovation for craft and commercial SMEs

This aid can be granted in the form of a capital subsidy or interest subsidy and aims to support research, development, and innovation for craft and commercial SMEs. This aid covers 75%, 50%, or 25% of the qualifying investment depending on the type of activity performed. The aid may be increased under certain conditions.

Activities covered include fundamental research, applied research, and pre-competitive development activity.

Qualifying investments include the acquisition cost or depreciation of some assets (e.g., land, constructions, instruments) that are exclusively used for research or development, payroll expenses, the costs of advisory or similar services, other current expenses, and additional overhead.

### Aid for young innovative enterprises

This aid can be granted in the form of a capital subsidy, recoverable advance, or equity capital contribution. It supports the activities of non-listed small enterprises that have been registered for five years at most, that have not yet distributed profits, and that are not the result of a merger.

The aid has a cap of EUR 800,000, with a regional gross up of EUR 400,000 for the districts of Dudelange and Differdange.

All the expenses incurred by the young enterprises during the project are admissible costs (except costs explicitly excluded by national legislation).

### Aid for investment in research infrastructures

This aid can be granted in the form of a capital subsidy, recoverable advance, interest relief, guarantee, or loan. It targets the construction or the modernization of research infrastructures carrying out economic activities. This aid is granted to all enterprises or research institutions and covers up to 50% of costs that are related to investment costs in intangible and tangible assets.

### Investment aid for innovation hubs

This aid can be granted in the form of a capital subsidy, recoverable advance, interest relief, guarantee, or loan. It aims to support the

construction or modernization of an innovation hub for legal entities operating in innovation clusters.

This incentive covers up to 50% of costs in intangible and tangible assets. There is a regional gross-up of 5% for the districts of Dudelange and Differdange.

### Management aid for innovation hubs

This aid can be granted in the form of a capital subsidy or recoverable advance and aims to support legal entities operating in an innovation hub. It is granted for costs related to the management and marketing of the cluster.

It covers up to 50% of payroll expenses and administrative expenses. There is a regional gross-up of 5% for the districts of Dudelange and Differdange.

### Aid for the recruitment of people

Several types of aid exist to support the recruitment of specifically targeted people, namely:

- Unemployed persons;
- Long-term unemployed persons (i.e., persons that have been unemployed for at least 12 months);
- Old unemployed persons (i.e., unemployed persons of at least 45 years of age);
- Apprentices;
- Disabled persons; and
- Highly-qualified individuals recruited or posted from abroad.

The recruitment aid can be granted in various forms depending on the type of aid (i.e., tax credit, reimbursement of social security contributions, financial assistance, etc.).

Luxembourg also provides re-employment assistance that applies when, following a job loss, a person accepts a new position in Luxembourg with remuneration inferior to that of their former employment. The aid ensures remuneration equal to 90% of the former remuneration during the first 48 months of the new position.

### Aid for business professional continuing education

Luxembourg supports certain continuing professional education and the aid can be granted in various forms depending on the type of aid (i.e., reimbursement of training fees, subsidies, etc.).