A year in review:

Luxembourg Investment Tax Credit and its potential opportunities

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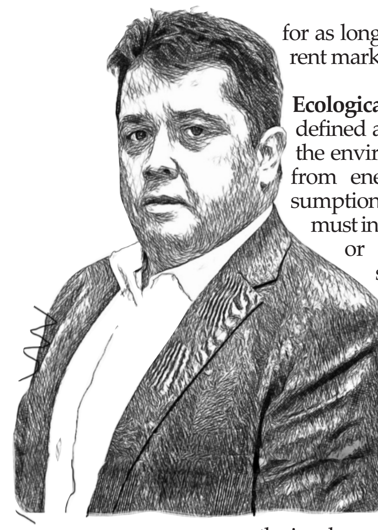


Since 2024, Luxembourg's new investment tax credit framework has provided a boost to investments in digital and green projects, reflecting the Government's keen interest to stimulating the market and widening its economic incentives. Some companies have already applied, but this opportunity could be interesting for many.

This modernization of the Luxembourg investment tax credit framework aligns with the Grand Duchy's commitments to climate change (e.g., in line with the European Union's climate neutrality by 2050 initiative), and enhances the local market's competitiveness. The first year following the reform's implementation allows us to draw practical takeaways for taxpayers and reiterate the opportunities for the Luxembourg companies.

Broadened scope and maximized rate

As of 1 January 2024, the Luxembourg investment tax credit regime consists of two main components. On one hand, there is a simplified tax credit for overall investments, with the rate increasing from 8% to 12%, regardless of the amount invested during the relevant financial year (i.e., the 150,000 € threshold no longer applies). On the other hand, the legislation offers a newly introduced tax credit for investments **and operational expenses** incurred during an eligible taxpayer's digital transformation or ecological and energy transition. For these projects, the applicable rate amounts to 18% without any thresholds.

Criteria for digital and ecological transformation and energy projects

Unlike the normal tax credit for overall investments that applies to given eligible assets, the legislator has made clear that the newly introduced regime targets entire **projects** focused on **digital transformation** or **ecological and energy transition**. The law defines **digital transformation** as the achievement of innovative processes or organizational innovation through the implementation and use of digital technologies, while meeting one of the objectives listed in the law (such as, the introduction of an innovative economic model, including a circular economy, significant transformation of the company's organizational structure to create new value for its stakeholders, or enhancement of cybersecurity).

In other words, the taxpayer's project must have a holistic (or very significant) impact, allowing the company to integrate technologies to rethink its opera- tional (focusing on product/service) and/or organizational (focusing on internal operations or relationships with other stakeholders) model. Therefore, the implementation of a simple digitization or digitalization process in daily processes – such as creation of an app where this is current market practice – will not be enough to meet the definition of digital transformation for the purposes of the modernized investment tax credit. An example of true digital transformation would be the implementation of artificial intelligence (AI) or data analytics to optimize risk management and fraud detection for as long as it has not become current market practice.

Ecological and energy transition is defined as any change that reduces the environmental impact, ranging from energy production or consumption to the use of resources. It must involve a significant technical or equipment changes and should aim to achieve, among other goals, a 20% improvement in energy efficiency of a production process, a 40% reduction in CO_2 emissions through decarbonisation, the production or storage of energy from non-fossil renewable sources, or the implementation of processes that extend the lifecycle of products through reuse.

It must be noted that the modernization law specifically excludes investments and operating expenses incurred to solely comply with its obligations deriving from any new legislation regarding environmental protection, as well as any legal and reglementary dispositions applicable to commercial and industrial companies. However, projects that would go considerably beyond the regulatory requirements may still qualify, as per the recent FAQ published on the public website Guichet.lu. This FAQ also answers a few practical queries Luxembourg taxpayers had.

Procedural complexity

To benefit from the new incentive, the taxpayer must request and be granted an *ex ante* attestation of eligibility from the Ministry of Economy, confirming that the project qualifies for the tax credit. After the end of each covered financial year, the Ministry of the Economy will issue a certificate confirming that the investments made, and expenses incurred, are legitimate and that they meet the objectives of the digital transformation or the ecological and energy transition. The taxpayer must attach this certificate to their tax return when claiming the tax credit. The attestation of eligibility form, available on Guichet.lu, that the taxpayer must in essence prepare a worked-out feasibility and implementation plan. To complete the form, the applicant must indicate different phases of the project, planned investments and expenses, as well as provide details about the involved staff. The project description, along with the relevant innovation and technologies used, must be further reflected in the eligibility request form. Thus, it is important for the taxpayer to properly assess a given project's potential for the modernized investment tax credit before preparing the required form. Regarding the budget, it seems that the Ministry considers the indicated budget as the maximum and, consequently, will not accept unjustified overruns when analyzing expenses for the purpose of issuing the yearly authenticity certificate.

Another important feature to consider is timing. The modernized regime foresees a period of applicability of three financial years. The eligibility form suggests that projects initiated before the adoption of the modernization law are likely to benefit from this incentive for their expenses incurred after the filing of the required form. However, it is important to underline that the tax credit applies throughout three financial, and not calendar years. Therefore, the taxpayer should pay attention to the timing of its eligibility request.

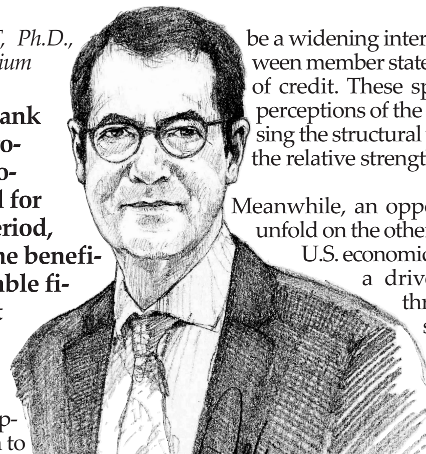
Conclusion

The modernized investment tax credit is rendered particularly attractive now that it encompasses operational expenses, such as staff and training expenses, as well as expenditures for diagnostic or external consulting related to qualifying digital and green projects. It is time for the finance and tax leaders of companies interested in the modernized investment tax credit to meet with their internal IT counterparts and identify opportunities for qualifying projects. Given the specific requirements of the modernized regime, they should work together — with the right assistance from experts — to prepare thorough documentation that demonstrates their projects' eligibility for this new incentive and ensures ongoing yearly compliance. While this may involve some effort, it may be a relatively small burden considering all the potential benefits this modernized tax credit brings.

Deloitte Luxembourg's Global Innovation and Investment Incentives Service Team, composed of specialists in the topic can help you determine your eligibility for the benefits of the new investment tax credit.

A major shift in monetary paradigm

Opinion - By Bruno COLMANT, Ph.D., Member of the Royal Academy of Belgium



The European Central Bank (ECB) is ending its European debt purchase program, which it has conducted for over a decade. During this period, member states of the eurozone benefited from exceptionally favorable financial conditions, making it relatively easy to finance their budget deficits.

However, by terminating this support, the ECB is signaling a return to stricter and more orthodox monetary policies. This implies that states, accustomed to monetary leniency, will now have to face the markets without a safety net. This new reality will highlight their economic and fiscal disparities. The direct consequence will be a widening interest rate differentials between member states, reflected in the spread of credit. These spreads reveal investors' perceptions of the solvency of states, exposing the structural weaknesses of some and the relative strength of others.

Meanwhile, an opposite scenario seems to unfold on the other side of the Atlantic. The U.S. economic policy, characterized by a drive to stimulate growth through massive tax cuts, significantly increases the budget deficit and public debt.

To support this growing debt, the Federal Reserve (FED) will likely adopt an accommodative stance, refinancing these deficits to some extent. This divergence in monetary policies between the two sides of the Atlantic could lead to profound consequences for currency markets and the global monetary balance.

If this divergent trend is confirmed – although predicting its evolution remains challenging in an uncertain geopolitical context – it could weaken the dollar and strengthen the euro. However, current signals suggest the opposite: the dollar has strengthened against the euro, defying expectations. This dollar strength is partly explained by the resilience of the U.S. economy and the attractiveness of dollar-denominated assets during times of global uncertainty. Nevertheless, this trend could be short-lived if monetary divergences persist.

In Europe, another challenge looms: financing the ambitions outlined in the Draghi report. This visionary document highlights the need to invest €800 billion annually to enhance European competitiveness through innovation. However, mobilizing such massive capital far exceeds the current capacity of the private sector. European states would, therefore, need to play a central role in this effort by borrowing to fund these strategic investments. Yet, with the cessation of debt purchases by the ECB, governments will have to find alternative solutions to refinance these loans, significantly complicating the implementation of this ambitious plan.

Europe is thus choosing orthodoxy and monetary normalization, marking a clear break from the expansionary policies of recent years. This choice, while aligned with principles of fiscal discipline, raises questions about its compatibility with the region's economic transformation and geopolitical adaptation needs.

I have been repeating this for months: currency, as a variable of adjustment through exchange rates, will play a central role in the coming quarters. Exchange rates are not merely economic indicators but the pulse of global geopolitical balances. The decisions of the ECB and the FED, while seemingly economic, carry significant geopolitical implications with consequences that could redefine power dynamics on a global scale. Adjustments in monetary parities will be one of the most sensitive and decisive arenas in this context of global realignment.

Gilles Roth à l'Eurogroupe et au Conseil Ecofin à Bruxelles :

« Il est important que l'Europe reste unie »

Le ministre des Finances, Gilles Roth, a participé aux réunions de l'Eurogroupe et du Conseil des Affaires économiques et financières (Ecofin) du 20 au 21 janvier 2025 à Bruxelles.

Lors de l'Eurogroupe, une discussion a eu lieu sur les priorités et les défis pour la zone euro dans le cadre du nouveau cycle politique européen. En outre, les membres de l'Eurogroupe se sont échangés sur l'utilisation de technologies innovantes dans le traitement des transactions de gros.

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Au cours d'un dîner organisé par la présidence polonaise, les ministres des Finances de l'UE ont discuté de manière informelle sur les aspects stratégiques auxquels l'Union est confrontée, notamment sur les considérations énergétiques.

Dans le cadre de la réunion du conseil Ecofin, la présidence polonaise a présenté son programme de travail et ses priorités pour les six prochains mois, se concentrant avant tout sur les aspects liés à la sécurité. Les ministres des Finances ont discuté d'un environnement plus compétitif pour les entreprises à l'échelle mondiale en réduisant la charge réglementaire.

Dans le cadre du Semestre européen 2025, le Conseil a approuvé les recommandations relatives aux premiers plans budgétaires et structurels nationaux à moyen terme. En outre, les ministres des Finances ont adopté les recommandations concernant les déficits excessifs pour les États membres ayant dépassé les plafonds du Pacte de stabilité et de croissance.

Le Conseil a par ailleurs fait le point avec le ministre des Finances ukrainien, Sergii Marchenko, sur les répercussions économiques et financières de l'agression de la Russie contre l'Ukraine.

Le ministre des Finances commente : «Je tiens tout d'abord à souhaiter à nos collègues polonais le meilleur pour leur présidence du Conseil de l'UE. Il est important que l'Europe reste unie et que nous continuions à coordonner nos actions face aux grands défis actuels.»

En marge des réunions, Gilles Roth a rencontré son homologue belge et Vice-Premier ministre, Vincent Van Peteghem.

Source : ministère des Finances