

Business in Luxembourg



Luxembourg is a founding member of the European Union and is geographically located in the heart of Western Europe, neighbouring France, Germany and Belgium. It therefore serves as the ideal entry point to a market of 500 million consumers and an area in which goods, people and capital circulate freely.

Luxembourg has specific highlights which make it a good location for doing business: investment friendly on-shore location, important private banking centre, modern legal and regulatory framework and political stability, the largest Investment Fund Centre in the EU, and a multicultural and multilingual workforce.

Luxembourg does not restrict the flow of European or foreign currencies into or out of the country but there are some reporting requirements to prevent money laundering.



Currency

Euro (€)

Population

 = 100,000

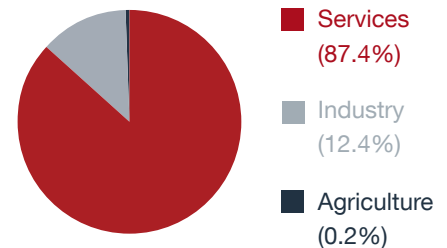
634,000



Foreign Direct Investment

30.7 million

GDP Breakdown by Sector (2019)



GDP Growth (est. 2021)

4%

Business Climate

Luxembourg is one of the most prosperous and open economies in the OECD. Thanks to overall sound policies and institutions, the financial sector remains competitive and has made inroads into new areas, such as fintech and green finance. The strong fiscal position is well illustrated by a long-standing AAA rating and the large accumulation of government financial assets. Luxembourg has a free-trade policy – restrictions are not imposed on foreign ownership of business.

The country is home to 128 banks as of March 2021, which are particularly specialized in private banking, life insurance and investment fund administration. The banking sector has been able to adapt and diversify to meet growing demand for tailored investment management and financial optimization services.

Luxembourg is also an attractive base for life insurance and reinsurance companies, including leadership in the area of captives, as well as for private equity and venture capital funds.

Luxembourg has recently enacted a new intellectual property (IP) regime in line with the OECD recommendations for more tax transparency. The new IP regime aims to promote R&D activities largely performed in Luxembourg and offers, to Luxembourg taxpayers, an 80% tax exemption on eligible net income derived from qualifying IP.

International Trade

Luxembourg has been a member of the World Trade Organization (WTO) since 1995, and as a member of the EU, charges third country goods with EU's Common External Tariff.

As for the foreign direct investment policy, Luxembourg, as a member of the EU, applies the principle of free establishment and non-discrimination. Any type of business can be operated under the same conditions of a local investor by the foreign investors. The Luxembourg Government provides various incentives for foreign investors such as tax benefits and grants.

While the EU has a rather liberal foreign trade policy, there are a certain number of restrictions, especially on farm products, following the implementation of the CAP (Common Agricultural Policy).

Customs duty for non-EU member countries is usually rather low (around 4.2% on average). There are, however, three sectors and product categories which are subjected to special higher tariffs, such as the clothing sector, fabrics and agroalimentary products (around 17.3%).

The Luxembourg Airport is one of the largest air cargo hubs in Europe, served by leading air cargos carriers. In addition, the airport has a designated free-trade zone.

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Tax Regime

The main direct taxes applicable in Luxembourg are:

Corporate income tax applies to all resident companies and to the Luxembourg permanent establishments of foreign companies.

A company is resident in Luxembourg if its legal seat or central administration is in Luxembourg. The overall standard corporate tax rate is 24.94%, comprising corporate income tax, solidarity surcharge and municipal business tax. Companies can take advantage of a number of tax relief measures and can benefit from exemptions under the EU directives.

Luxembourg's income tax rate for individuals is one of the lowest in Europe. Resident individuals are taxed on their worldwide income. Non-residents are taxed only on Luxembourg-source income. An individual is considered a resident if she/he is domiciled in or her/his habitual place of abode is in Luxembourg. Income tax is based on 23 brackets and the maximum marginal tax rate is at 42% plus solidarity surcharge.

In Luxembourg individuals are subject to inheritance and gift tax but not to net wealth tax.

The main indirect taxes applicable in Luxembourg are:

Value-added tax (VAT) is levied on the supply of goods and services. The standard rate is at 17%. An intermediate rate of 14% applies on custody and securities management fees. A reduced rate of 8% applies on certain energy supply operations, and a super-reduced rate of 3% on most food products and the supply of water. Certain good services are exempt (i.e., financial, insurance, health and medical services).

Stamp duty is levied at various rates on the registration of notary deed, bailiff deeds, and certain actions by court.

Transfer tax is applicable mainly to the transfer of immovable property.

Establishing a Business

In the fund sector, Luxembourg is the European leader and ranks second globally in terms of assets under management. Net assets under management funds were EUR 4.719 billion by January 2020. It has established a modern and competitive legal and regulatory framework, by directly implementing the European UCITS I Directive and assigning investment funds with European passports. In this sector, Luxembourg is developing increasingly innovative solutions (i.e., venture capital companies (SICARs), hedge funds, family wealth management companies (SPFs), securitization vehicles and pension funds). Luxembourg is considered to be a prime location to establish and maintain multi-geographical and multi-sectoral Reserved Alternative Investment Funds (REIFs).

The legal forms that are most commonly used for entities in Luxembourg are the private limited liability company (société à responsabilité limitée or S.à r.l.), the public limited liability company (société anonyme or S.A.) and the special limited partnership (société en commandite spéciale or SCSp). To set-up a S.à.r.l, the minimum capital of EUR 12,000 is required. For a S.A., the minimum required capital is EUR 30,000.

Other forms of entities used in Luxembourg include the common limited partnership (société en commandite simple or SCS) and the partnership limited by shares (société en commandite par actions or SCA).

Luxembourg offers a full range of tailor-made incentives designed to give a head-start to new ventures, in particular to foster R&D and innovation.

Business and innovation centers offer a platform to host and assist entrepreneurs or technology-based companies wishing to establish new and innovative activity in Luxembourg. Incubators provide the appropriate support and advice to new projects facilitating their development and growth.

Employment Affairs

Nationals of EU Member States or nationals of non-EU member states with a work and residence permit are allowed to work in Luxembourg. In 2021, the minimum wage was raised to EUR 2,202 for unskilled workers per month or EUR 26,424 per year. There are adjustments to the minimum wage concerning age and skills.

- **Maternity and Paternity Leave:** Eight weeks paid for maternity leave prior birth and 12 weeks of postnatal leave. Paternity leave is granted for 10 days. Luxembourg also has a regulation for parental leave with several options.
- **Unemployment Benefits:** In order to get benefits, the employee should have contributed to Social Security for at least 26 weeks in the past 12 months.
- **Retirement:** The legal retirement age in Luxembourg is 65.

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