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**What's new in 2025 ?**

# Introduction

The end of 2024 was rather positive. Different tax bills were approved in December 2024 (among other the bills n° 8414, the bill n°8388 and the bill 8406) amending Luxembourg income taxation for both individuals and corporate taxpayers and some VAT aspects as well.

Besides, still in December 2024, in order to incentivize real estate transactions, the Luxembourg government extended the tax benefits for housing construction until the end of June 2025. Moreover, an accelerated depreciation and reduced registration fee are allowed in certain circumstances.

Relatively high investment tax credits can also be obtained for companies that want to invest in digital and energy transformation.

All these measures aim to boost the Luxembourg economy as a whole and to provide a better purchasing power to individuals (resident, cross-border employees and inpatriates). New tax measures were also taken to attract inpatriates.

Finally, the ambition of the Directorate of the Luxembourg Inland Revenue (headed by Mr. Jean-Paul Olinger) is to improve transparency between the tax authorities and taxpayers. It is in this context that we have seen in 2024 a growing number of new circulars and FAQs to allow taxpayers and tax specialists to understand in detail and in a practical way the scope of each tax decision.

Digitalization is also accelerating very quickly in all domains in Luxembourg.

We will try to summarize all these measures and much more in the following pages.



# Taxation of legal entities

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## Corporate tax measures

### Measures as of the 2025 tax year:

- Reduction of Corporate Income Tax (CIT) Rate (Bill n°8414)
- Simplification and overall decrease of the Minimum Net Wealth Tax (MNWT) (Bill n°8388)
- Possibility of waiving the benefit of the exemption for Luxembourg dividends and capital gains (Bill n°8388)

# Reduction of Corporate Income Tax (CIT) Rate (Bill n° 8414)

The new rates are :

- > Up to EUR 175,000: 14 % (from 15 % before)
- > EUR 175,001 - EUR 200,000: 14 % - 16 % (from 15 % - 17 % before)
- > Above EUR 200,000: 16 % (from 17 % before)



# Simplification and overall decrease of the Minimum Net Wealth Tax (MNWT) (Bill n° 8388)

Following the Constitutional Court's ruling of November 2023, the MNWT regime has been simplified to ensure fairness in the application of the MNWT across all the corporate taxpayers, irrespective of the proportion of financial assets held.

As from 2025 tax year, the MNWT is computed as follows:

- > **Total balance sheet up to EUR 350,000:** EUR 535 (no change compared to the past)
- > **Total balance sheet over EUR 350,000 but up to EUR 2,000,000:** EUR 1,605 (already applicable since the Constitutional Court's decision, meaning a reduction of MNWT from EUR 4,815 to EUR 1,605 for taxpayers falling within this total balance sheet range and having the characteristics of a Soparfi (holding predominantly financial assets))
- > **Total balance sheet over EUR 2,000,000:** EUR 4,815 (while the MNWT ranged before between EUR 5,350 and EUR 32,100 for taxpayers falling within this total balance sheet range and having the characteristics of a non-Soparfi (holding predominantly non-financial assets)).



## Possibility of waiving the benefit of the exemption for Luxembourg dividends and capital gains (Bill n° 8388)

As from tax year 2025, taxpayers can choose to waive the exemption on income from specific participations:

- > Dividends and liquidation proceeds that benefit from the Luxembourg participation exemption regime as foreseen under the Article 166 of the Luxembourg income tax law (loi luxembourgeoise en matière d'impôt sur le revenu « LIR »), provided the **exemption only results from an acquisition cost of at least EUR 1.2 million** (i.e. not from a participation of at least 10%);
- > Capital gains that benefit from the Grand-Ducal decree dated December 21, 2001, provided **the exemption only results from an acquisition cost of at least EUR 6 million**. (i.e. not from a participation of at least 10%);

In other words, when the conditions of the exemption are fulfilled on the basis of the participation rate only, it is not possible to exercise this waiver.

Limitation of the exercise of the waiver in these cases is explained by the constraints arising from Council Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of Member States.

- > Dividends that qualify for the 50% exemption under Article 115, 15a LIR (no specific threshold condition to opt for the waiver here)

In all the situations described above, the waiver must be **requested individually for each tax year and for each participation**.

This option must be exercised separately for each tax year and for each participation.

Non-exercise of the opt-out will result in the default exemption continuing to apply.

The option to waive the benefit of the exemption aligns on the one hand with the exemption regime for participation income in a number of other Member States of the European Union. On the other hand, the proposed amendment allows for greater flexibility to be provided to companies that may be able to in particular have an interest in making use of their carried-forward tax losses (being subject to a 17-year time limit on deductibility since 2017) rather than to automatically benefit from an exemption.



# Taxation of legal entities and UCITS ETF

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## Corporate tax measures and other taxes

### Measures as of 1<sup>st</sup> January 2025:

- Exemption from subscription tax for UCITS ETF (Bill n° 8414)
- Extension of mandatory electronic filing of certain tax returns (Bill n° 8388)
- Family Wealth Management Companies (société de gestion de patrimoine familial or "SPF") (Bill n° 8414)
- Partial liquidations (Bill n° 8388)



## **Exemption from subscription tax for UCITS ETF (Bill n° 8414)**

In the context of improving the competitiveness of the Luxembourg financial market and considering the constant development of the fund industry, the bill introduces a full exemption from subscription tax for certain actively managed UCITS ETFs 'Undertakings for Collective Investment in Transferable Securities Exchange Traded Funds' that are listed.

The bill precises as well that in case there are several units or compartments within the listed UCIT fund, the exemption only applies to the unit or compartment qualifying as ETF.

This exemption is available since the first day of the quarter following the entry into force of the law, law, i.e. 1 January 2025.

## **Extension of mandatory electronic filing of certain tax returns (Bill n° 8388)**

As from January 1st, 2025, the mandatory electronic filing procedure will be applicable to withholding tax returns on directors' fees. These returns must be filed by the Luxembourg payers of the related income.



## **Family Wealth Management Companies (société de gestion de patrimoine familial or “SPF”) (Bill n° 8414)**

- > This amendment is applicable since the first day of the quarter following the entry into force of the law, i.e., 1 January 2025.

The regime of the family wealth management companies has been modernized in order to reduce the abusive use of this vehicle.

SPFs are subject to favorable tax treatment, which allows a tax exemption from corporate income tax and net wealth tax. SPFs are nevertheless subject to an annual subscription tax.

The new modifications include (i) the increase of the minimum annual subscription tax from EUR 100 to EUR 1,000, (ii) the introduction of administrative fines in case of non-compliance with any obligations imposed by the Law of 11 May, 2007 and (iii) the adjustment of the current process for withdrawing the SPF's tax status (if breaches to the SPF regime are detected, a six-month period to remedy is granted. If breaches are not rectified at the end of the six-month period, the SPF regime can be definitely withdrawn).

Finally, the new law foresees that the domiciliary agent (or approved statutory auditor/accountant) should transmit the SPF certification electronically (still to accelerate the digitalization process) to the registration Duties, Estates and VAT authority. This registration should be completed annually before 31 July.



# Partial liquidations (Bill n° 8388)

Just as a reminder, during the year 2023, the Luxembourg administrative tribunal issued two judgements (*Tribunal administratif*, 27 January 2023, n° 42432 and 14 June 2023, n° 45759) providing guidance on the tax treatment of the redemption of shares.

In this context and in order to ensure greater legal certainty regarding the applicability of these operations, it was decided to amend the Article 101 LIR in order to define the cumulative conditions necessary to certain operations to benefit of the tax regime applicable to partial liquidation, in the light of the latest case laws.

In the new version of the Article 101 LIR paragraph 2, it is clarified that the repurchase (or withdrawal) and cancellation of shares (including classes of shares) followed by the reduction of the share capital within a period of maximum 6 months qualifies as a partial liquidation for tax purposes (free of withholding tax).

Nevertheless, the above tax treatment is subject to the following cumulative conditions :

- the redemption or withdrawal relates to an entire class of shares or shares;
- The classes of shares or shares are set up at the time of incorporation or an increase in the capital;
- Each class of shares has economic rights, defined in the articles of association of the organization, distinct from those of other classes of shares or shares;
- The redemption or withdrawal price of a class of shares or shares is determinable on the criteria set out in the by-laws (or any other document referred to in the by-laws) to reflect the fair value of these classes upon repurchase or withdrawal.

If the repurchase or withdrawn of class of shares is held by an individual with more than 10% participation in the Luxembourg company, the identity of the individual must be disclosed in the company's annual tax return.

# Partial liquidations (Bill n° 8388) (Continued)

Other additional commentaries have been clarified during the drafting of the new paragraph 2 and can be summarized as such:

- To determine an important participation, the 10% holding ratio is determined based on the participation in the entity (and not in a class of shares);
- The fact that a shareholder in the repurchased class of share is also a shareholder in any of the remaining classes of shares should not affect the above-described mechanism;
- Finally, it is recalled that the abuse of law provision provided in § 6 of the Tax Adaptation Law (*Steueranpassungsgesetz* or “StAnpG”) remains **applicable** when the redemption or withdrawal of a class of shares or shares has as its main objective, or as one of the main objectives, a circumvention or reduction of the tax burden that runs counter to the tax object or purpose, and is not authentic in view of all the facts and circumstances.

- > In brief the new paragraph 2 of the article 101 LIR determines the necessary prerequisites for the qualification of such operations as partial liquidations from a tax perspective, which was not textually the case before.
- > The paragraph 2 of the article 101 LIR restresses the importance of the **economic substance** of each repurchase/cancellation transaction. Finally, the concept of the abuse of law is re-stressed (the redemption of shares should not be used to circumvent tax laws or to unfairly benefit certain shareholders).
- > In all circumstances, we recommend that you seek advice from lawyers or company auditors (our team composed of chartered accountants and statutory auditors is used to this kind of operations) in order to verify the sequence of the various stages and to determine the accounting/legal and tax consequences that result from it.





# Taxation of legal entities - Corporate tax measures

*(Continued)*

## Measures as of the financial year 2024:

- The concept of “Single-Entity Group”

# The concept of “Single-Entity Group”

The concept of “single-entity group” is introduced for the purposes of interest limitation rules.

Single-entity groups (i.e. entities that are neither part of a consolidated group for financial accounting purposes nor standalone entities for the purposes of the interest limitation rules) may, upon request, benefit from a special equity ratio escape clause. This special equity ratio escape clause is fulfilled if the single-entity group can demonstrate that its equity ratio is equal or greater than the equivalent equity ratio of its group. In this hypothesis, the single-entity group may deduct the full amount of its exceeding borrowing costs.

For instance, such new group exemption should have a positive impact on an orphan securitization vehicle not included in a financial consolidation and having issued notes almost exclusively to third parties. This a welcome measure to reinforce Luxembourg’s attractiveness of certain securitization transactions.

This provision applies to financial year starting as from 1<sup>st</sup> January 2024.





# Taxation of legal entities - Corporate tax measures

*(Continued)*

## Measures as of the fiscal year 2024:

- Investment tax credit

# Investment tax credit

## > Changes:

- The tax rate for the Global investment tax credit raised from 8% to 12%
- For simplification purposes, the Complementary investment tax credit is no longer applicable
- Introduction of a 18% investment tax credit for investment and operating expenses related to digital and ecological transformation, termed as the "DET Tax Credit." One of the most incentives is the inclusion of specific operating expenses related to the digital and ecological transformation, which may also now qualify for **the 18% DET tax credit**.
- Only investments and expenses incurred after the submission of the application for the Eligibility Attestation will qualify.

## > Procedure for the DET tax credit:

- **Before making the investment or expense**, taxpayers must submit an application file to the Ministry of Economy to obtain the Eligibility Attestation to the DET tax credit. The application should detail several aspects of the investment/expense, in particular their financing, nature and objective. **The application will be analyzed by a specific commission, which should provide a reply within three months.**
- **After the end of the fiscal year**, taxpayers must request a certificate of compliance of the eligibility of the investments and/or expenses from the Ministry of the Economy. The **deadline** to introduce this request is two months after the end of the fiscal year and the reply should be provided within nine months of the end of the fiscal year.
- **When filing tax returns, taxpayers must attach the certificate of compliance** issued by the Ministry of Economy in addition to the existing invest tax credit forms.

## > Conclusion:

For more details on the eligible investments and operating expenses and the procedure, we refer you to our newsletter issued in June 2024 and we remain at your disposal for any assistance during the establishment of your project.





# Taxation of legal entities

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## Corporate tax measures

*(Continued)*

### Circulars issued during the civil year 2024 and clarifying some tax treatments:

- Clarification on the tax treatment of a dissolution without liquidation
  - Tax treatment for corporate income tax (CIT) and municipal business tax (MBT)
  - Net wealth tax (NWT)

# Clarification on the tax treatment of a dissolution without liquidation

**Takeaways:** A Circular L.I.R. n°170/1, 170bis/1, I.C.C n°44, I. Fort. n°55 (“the Circular”) was issued by the Luxembourg tax authorities on 19 July 2024 bringing some clarifications on the tax treatment of a dissolution without liquidation (also called simplified liquidation) aimed by article 1865bis of the Civil Code.

According to the clarifications, the operation could be performed under a tax neutral regime (under certain conditions similar to the one of the mergers) and the shareholder of the dissolved company without liquidation could continue the net wealth tax reserves to keep the benefit of the reduced NWT.

- > Tax treatment for corporate income tax (CIT) and municipal business tax (MBT):
  - For CIT and MBT purposes, the Circular reminds that the simplified liquidation under article 1865bis of the Civil Code should trigger the same tax effects than a regular liquidation. This means that the company should be taxed on the realization of all its assets and liabilities at their fair market value.
  - Furthermore, the Circular specifies that this operation **can be assimilated to a merger and can then benefit from the same tax neutral regime granted to a merger**. In this view, provided certain conditions are met i.e., notably (i) the transfer is carried out by a cancellation of the participation held by the absorbing entity in the absorbed entity and (ii) the transfer must ensure future taxation in Luxembourg of any hidden reserves that would have been taxable without the tax-neutral regime, the simplified liquidation can be performed without triggering any taxation at the level of the dissolved company without liquidation.
  - The same regime applies to cross-border simplified liquidations within EU and EEA, as long as the conditions are met.

# Clarification on the tax treatment of a dissolution without liquidation *(Continued)*

## > Net wealth tax (NWT):

- A company can reduce its NWT liability by creating special NWT reserves from profits or available reserves from the previous years. The constitution of the reserve and the NWT reduction are subject to some conditions and namely to the condition that the NWT reserve must be maintained for at least a 5-year period.
- In case a company is dissolved without liquidation and benefited from a reduced NWT via constitution of a special NWT reserves (but the 5-year period was not yet met at the time of the dissolution according art. 1865bis of the Civil Code), the Circular clarifies that the NWT reserves can be transferred to the shareholder upon the dissolution without liquidation in order to continue the NWT reserves without interrupting the five-year period.





# Taxation of legal entities

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## VAT measures

### Measures as of 1<sup>st</sup> January 2025:

- SME special scheme amendments (bill n° 8406)
- The place of taxation of virtual events (bill n° 8406)
- Reform of the VAT regime on works of art (bill n° 8406)

# SME special scheme amendments (bill n° 8406)

The restructuring of the special scheme for small of enterprises introduces aiming at reducing administrative burden and facilitating cross-border activities.

Taxable persons benefiting from the SME scheme (which is optional) are authorized to issue invoices without VAT. This means however they cannot deduct VAT on their expenses and are exempt from the obligation to file VAT returns (except in some circumstances as described below).

The changes applicable can be summarized as such:

✓ Revised national franchise scheme

- Conditions

- > The annual turnover threshold for eligibility to the to the Franchise scheme is increased from **EUR 35,000 to EUR 50,000**. The annual turnover in Luxembourg means the total amount, excluding VAT, of the supplies of goods and services listed in Article 57 of the VAT law, carried out by a taxable person in Luxembourg during a calendar year.

- > A pragmatic tolerance for the Franchise national scheme should be allowed when the EUR 50,000 threshold is exceeded by a maximum of 10%. Thus, a small business that exceeds the national threshold during a calendar year can continue to benefit from the exemption until the end of that year, provided that the threshold is not exceeded by more than 10% (i.e. a tolerated threshold of EUR 55,000). However, in the following calendar year, the small business will not be eligible for the exemption.

- Takeaways

- > Operations excluded from the SME scheme, among others:
  - deliveries of new means of transport to another Member State.
  - VAT taxpayers benefiting already of a special scheme (for instance 'VAT group' scheme)
- > When VAT taxpayers provide intra-Community services or become liable for VAT within the country under the provisions of Article 61 of the VAT law, they still must submit a simplified annual VAT return before 1 March of the following calendar year via the eCDF portal. They are also required to provide recapitulative statements relating to their intra-Community supplies of services.

# SME special scheme amendments (bill n° 8406)

**(Continued)**

✓ New Cross-Border VAT exemption regime

- Conditions

Small Luxembourg businesses can benefit from the exemption in other EU Member States by registering for the cross-border SME scheme in Luxembourg.

Access to this scheme is subject to two conditions:

1. its turnover in all Member States must not exceed the threshold of EUR 100.000 set at EU level and
2. the turnover in the Member State where the VAT taxable person is not established and where he wishes to benefit from the exemption must not have exceeded the national threshold set for the exemption in that Member State in the current and the previous calendar year, or, depending on the option chosen by the Member State, during the current and the two previous calendar years.

If this threshold is exceeded, the small business will no longer be able to benefit from the exemption in another Member State for at least one calendar year.

However, it may continue to benefit from the exemption in Luxembourg for as long as it remains eligible.

- Takeaways

Once registered, these businesses will not need to register for VAT purposes and submit VAT returns in other EU Member States for the transactions carried out there under the exemption. However, they will be required to declare their turnover in each EU Member State on a quarterly basis to the AED via the MyGuichet.lu platform.

- Examples

1. A VAT taxable person established in Luxembourg, who made sales in 2024 of EUR 30,000 in Luxembourg, EUR 40,000 in Germany, and EUR 10,000 in Belgium, totaling EUR 80,000, the Cross-border SME scheme could be applicable as from 2025 provided all the conditions mentioned under section A) are well fulfilled.
2. A VAT taxable person established in Luxembourg, who made sales in 2024 of EUR 30,000 in Luxembourg, EUR 0 in Germany, EUR 40,000 in Belgium (national threshold being of EUR 25,000 in Belgium) and EUR 10,000 in France, the Cross-border SME scheme could not be applicable since the national threshold applicable in Belgium was exceeded during 2024.

- Conclusion

If you believe that you meet these criteria (national or cross-border regime), do not hesitate to submit your file to our team and we will take the necessary steps with the VAT tax authorities to allow you to benefit from the national franchise regime or the cross-border regime depending on your case.



# The place of taxation of virtual events (bill n° 8406)

## > Until 31 December 2024

For cultural, artistic, sporting, scientific, educational, entertainment, or similar activities provided to non-taxable persons, the place of supply is where the services are physically carried out.

## > As of 1<sup>st</sup> January 2025

Virtual events will be taxable at the place of establishment or residence of the participants, whether they are professionals (B2B) or individuals (B2C).

The rules that determine the place of supply for event access based on the physical location of the event will only apply to physical access.

Therefore, as from January 1<sup>st</sup>, 2025, the access to the same event could be subject to different localization rules and different VAT rates which could be summarized as follows:

1. **Physical Attendance:** Invoices with Luxembourg VAT for clients physically attending the event in Luxembourg
2. **Virtual Attendance by VAT Taxable Persons:** Invoices without VAT, with a reference to self-assessment for taxable clients attending virtually
3. **Virtual Attendance by Non-VAT Taxable Persons:** Invoices with VAT from the client's country (e.g., German, Belgian, French VAT) for non-taxable clients residing in other Member States attending virtually. For this last category (invoices with foreign VAT), the organizer will need to choose between registering for VAT in those Member States or using the One-Stop-Shop system provided by the Luxembourg VAT authorities, allowing for electronic and centralized payment of various local VATs.

Here, the desire to tax at the place of consumption has clearly taken precedence over administrative simplicity. This change aims to harmonize the place of supply rules for virtual events across EU Member States, addressing disparities observed during the COVID-19 pandemic.

# Reform of the VAT regime on works of art (bill n° 8406)

## > Until 31 December 2024

The Luxembourg art galleries paid a reduced VAT rate of 8% on certain art purchases without being able to deduct this VAT and apply a standard VAT rate of 17% on the profit margin made during resale.

## > As of 1<sup>st</sup> January 2025: extension of the reduced VAT rate of 8% and reduction of the scope of margin scheme

Starting from 1<sup>st</sup> January 2025, the Directive 2022/542 prohibits the combination of a reduced VAT rate on purchases and the application of VAT on the margin during the resale of such goods.

To mitigate the impacts of the Directive, the Luxembourg Association for Art Galleries & VAT practitioners held discussions with the Ministry of Culture and the Ministry of Finance in Luxembourg.

The government listened the arguments of all the parties.

Hence, even though taxable resellers like art galleries and agents will no longer be able to use the VAT margin scheme on resales of works purchased at the 8% rate, they can still apply a reduced VAT rate of 8% on all art sales (except when using the margin scheme) and deduct the VAT on their purchases as from 1<sup>st</sup> January 2025.

This measure helps to significantly limit the impact of Directive 2022/542, ensuring that Luxembourg remains an attractive location for the art sector.





# Taxation of legal entities

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## VAT measures

*(Continued)*

### Measures as of 11 December 2024:

- VAT and directors' fees: Circular 781-2
  - CJEU Case-law
  - Judgment of the District Court of Luxembourg dated 22 November 2024
  - VAT consequences of the national judgment
  - Regularization process

# VAT and directors' fees: Circular 781-2

## > CJEU Case-law:

It follows from the case-law of the Court of Justice of the European Union (TP, C288/22) dated 21 December 2023 that Article 9(1) of Council Directive 2006/112/EC of 28 November 2006 relates to the common system of value added tax, transposed into Article 4(1) of the amended Law of 12 February 1979 on value added tax (hereinafter referred to as 'the VAT Law'), must be interpreted as meaning that

- the member of the board of directors of a public limited company governed by Luxembourg law exercises *an economic activity, within the meaning of this provision, if he provides services to the company for consideration, as well as if this activity is of a permanent nature and is carried out in return for remuneration, the terms of which are foreseeable;*
- *the right to be a member of the board of directors of a public limited company governed by Luxembourg law shall not be exercised independently, within the meaning of this provision, where, despite the fact that the member freely organises the arrangements for the performance of his work, receives the emoluments of his income himself, acts in his own name and is not subject to a hierarchical subordinate relationship, he does not act on his own behalf or under his own responsibility and does not bear the economic risk associated with his activity.*

## > Judgment of the District Court of Luxembourg dated 22 November 2024:

The District Court of Luxembourg issued a judgment on 22 November 2024 on the economic nature of the activity exercised by a member of the board of directors of a public limited company governed by Luxembourg law and on the "independent" exercise of that activity.

### • *Economic activity*

The District court of Luxembourg found that the two criteria used by the CJEU to characterize the existence of economic activity were met in the present case.

On the one hand, the provision of services is provided for a fee. On the other hand, the acknowledgment of membership of the board of directors is of a permanent nature and is exercised in return for remuneration the terms of which are foreseeable.

Consequently, the activity of a member of the board of directors of a public limited company incorporated under Luxembourg law constitutes an economic activity within the meaning of VAT.

### • *Independently*

As regards the independent exercise of such an activity, the District Court recognizes that a member of a board of directors of a public limited company governed by Luxembourg law freely organizes the arrangements for the performance of his work, that he himself receives the emoluments relating to his income and that there is no hierarchical subordinate relationship. However, he judged that he is not acting on his own responsibility, nor does he bear the economic risk associated with his economic activity. This risk falls on the company, as a consequence of the actions of the board of directors.



# VAT and directors' fees:

## Circular 781-2 *(Continued)*

Consequently, a member of the board of directors of a public limited company governed by Luxembourg law who does not act under his own responsibility and who does not bear the economic risk associated with his or her activity, does not exercise his or her role as a member of the board of directors of a public limited company governed by Luxembourg law independently and, consequently, cannot be considered to be subject to value added tax.

### > VAT consequences of the national judgment:

Following the judgment of the District Court, the Luxembourg VAT authorities issued a Circular 781 -2 on 11 December 2024 in which several guidance and clarifications are given.

The Luxembourg tax authorities **does not intend to limit the consequences of the CJEU judgment C-288/22 and of the judgment of 22 November 2024 to the directors of public limited companies only.** Therefore, the VAT exemption will be extended to directors/managers of other legal forms of the company (e.g. S.à r.l. and SCA). This principle should also apply to members of management or supervisory boards under Article 442-10 of the Commercial law. As long as they act within the limits of their mandate, only the company should be held liable.

Besides, the decisions are applicable to directors who are natural or legal persons. This also includes directors acting through their own companies (i.e. being shareholders).

However, it seems that the VAT regime discussed in the Circular does not extend to companies that make employees available as directors. This is because the Circular specifies that the VAT benefit applies to directors who personally receive remuneration for their services. As a result, the effects of the Circular 781 of 30 September 2016 temporarily suspended until the issuance of the national judgment, remains applicable to these companies, meaning a VAT rate of 17% will be applied to the directors' fees.

Based on the above considerations, it is up to the directors of the companies concerned to assess whether or not they meet the criteria determined by the judicial decisions in order to know whether or not they are subject to VAT. If it is concluded that the VAT should not have been applied, a regularization process can be started.

### > Regularization process:

The VAT authorities have set up a dedicated tool for non-bureaucratic regularization of the VAT applied by directors in the past. This tool is available on MyGuichet.lu since December 16, 2024.

The VAT authorities have waived the statute of limitation for 2018 and 2019, provided that the requests are made by July 1, 2025.

Do not hesitate to contact our tax team to help you for an assessment and/or help you in refund VAT procedures. EuroLux Group may carry out the proceedings by means of a signed power of attorney received from the director.

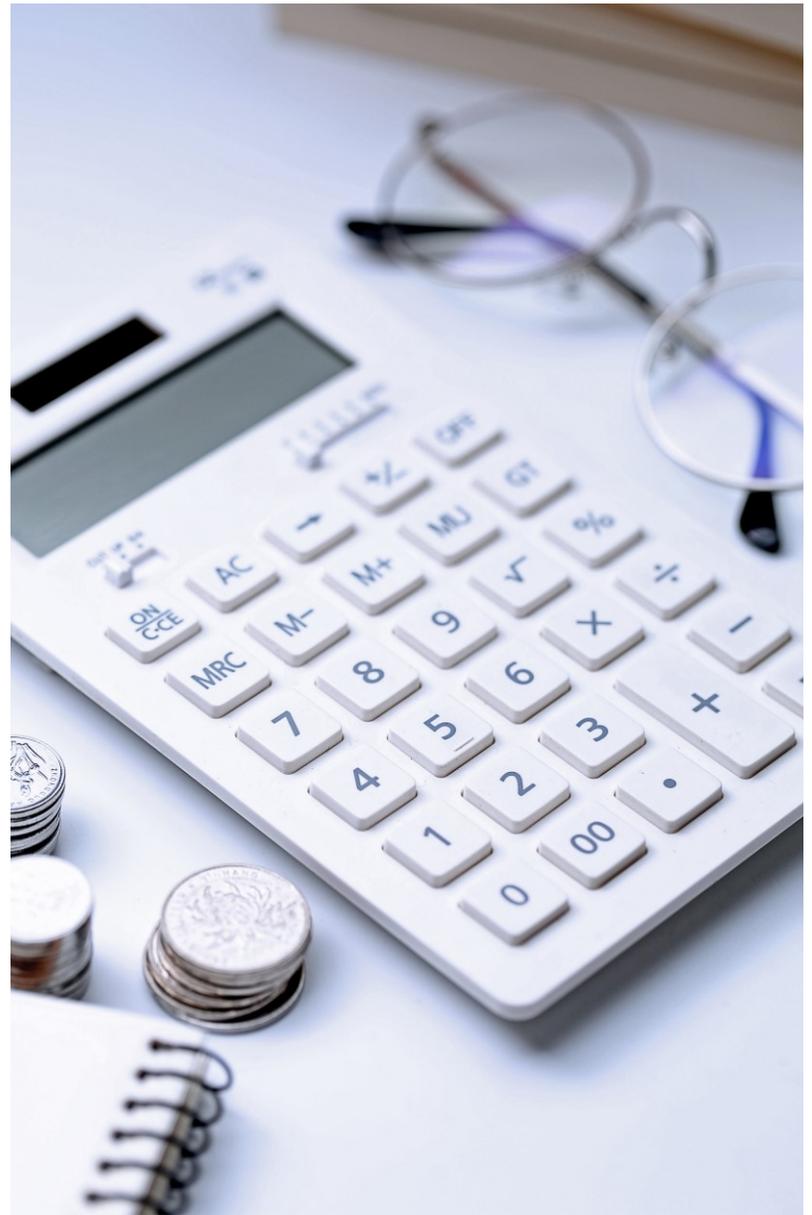


# Accounting

- Project: Accounting reform

## Project: Accounting reform

The “Draft Law No. 8286/051 on Accounting, Annual Accounts, and Consolidated Annual Accounts of Companies, as well as Related Reporting, and the Abolition of the Function of the Commissioner in Company Law,” which was submitted to the Chamber of Deputies on July 28, 2023, and aims to revise Luxembourg accounting law, **has not yet come into force.**





## Taxation of natural persons

- Update of the Inpatriate Regime
- Strengthening of the profit-sharing bonus system "Primes participatives"
- Adjustment of the tax scales
- New Bonus for Young Employees
- Tax relief for people in tax class 1A (single parent households) and adjustment of Tax Credit for Single Parents (CIM)
- New Tax Credit on Overtime for Cross-Border Workers (CIHS)
- Tax Exemption for Unqualified Minimum Wage Earners (SSMNQ) and adjustment of the Tax Credit on Social Minimum Wage (CISSM)
- Modification of the Benefit-in-Kind (ATN) for Company Cars
- Increase in the allowance for extraordinary expenses due to children not forming part of the household

**Application Period:** The measures for individuals will generally apply starting from the 2025 tax year, except for the tax credit for overtime, which will apply starting from the 2024 tax year.

## UPDATE OF THE INPATRIATE REGIME

- > **50 % Tax Exemption:** Inpatriates will benefit from a 50 % exemption on their total annual remuneration paid by their employer (maximum of EUR 400,000), excluding certain tax exemptions and benefits in kind.
- > **Choice for Existing Inpatriates:** Taxpayers who have benefited from the previous inpatriate regime up to the 2024 tax year can continue to apply the old rules, provided they meet the requirements. Alternatively, they can opt for the new regime starting in 2025 by notifying the tax authorities. This choice is irrevocable and valid for up to 8 years.
- > **Conditions unchanged:** The eligibility conditions, duration of the regime, as well as the reporting procedures and obligations, remain unchanged.

## **Taxation of natural persons**

### STRENGTHENING OF THE PROFIT-SHARING BONUS SYSTEM "PRIMES PARTICIPATIVES"

- > **Increase of the Bonus Cap:** The cap for the profit-sharing bonus will be raised from 5 % to 7.5 % of the employer's profit from the previous year.
- > **Increase in Tax Exemption:** The tax exemption for the profit-sharing bonus will be increased from 25 % to 30 % of the employee's gross annual remuneration (excluding cash and non-cash benefits).

### ADJUSTMENT OF THE TAX SCALES

- > **Adjustment by indexations:** Starting the 2025 tax year, the personal income tax scales will be adjusted by an additional 2.5 indexes, following an initial adjustment on January 1<sup>st</sup>, 2024.
- > **Objective:** This measure aims to fill the gap created by the lack of adjustments since 2017, despite the fact that 8 wage indexations have taken place during this period. In conclusion, all individuals taxed according to the income tax scale will see a reduction in their tax burden.



## NEW BONUS FOR YOUNG EMPLOYEES

- > **Maximum Bonus Amount:**
  - EUR 5,000 for gross annual remuneration up to EUR 50,000
  - EUR 3,750 for gross annual remuneration up to EUR 75,000
  - EUR 2,500 for gross annual remuneration up to EUR 100,000
- > **Tax Exemption:** Up to 75 % of the bonus is tax-exempt if specific conditions are met:
  - The employee is under 30 years old at the beginning of the tax year.
  - The employee has his first permanent employment contract with an employer based in Luxembourg.
  - The first bonus was paid within the last 5 years.
- > **Tax exemption limit:** The tax exemption does not apply if the gross annual salary exceeds **EUR 100,000**.
- > **Loss of Tax Exemption:** The exemption is lost if the employee changes employer.

## **Taxation of natural persons (Continued)**

### TAX RELIEF FOR PEOPLE IN TAX CLASS 1A (SINGLE PARENT HOUSEHOLDS) AND ADJUSTMENT OF TAX CREDIT FOR SINGLE PARENTS (CIM)

- > **Adjustment of the income tax scale and reduction in Tax Burden:** A significant adjustment to the income tax scale, which can reduce the tax burden for taxable incomes over EUR 50,000 by EUR 2,250 to EUR 2,600 per year.
  - **Increase of the CIM tax credit:** The annual CIM amount will be increased to EUR 3,504 (currently EUR 2,505). This maximum amount applies to adjusted taxable incomes up to EUR 60,000. Beyond this threshold, the tax credit decreases linearly to an annual minimum of EUR 750 for adjusted taxable incomes of EUR 105,000 or more.
  - **Increase in the CIM reduction threshold:** In presence of family allowances, the CIM will be reduced. The threshold upon which the CIM will be reduced increases from EUR 2,424 to EUR 2,712.

## NEW TAX CREDIT ON OVERTIME FOR CROSS-BORDER WORKERS (CIHS)

- > **Amount of Tax Credit:** Up to EUR 700 per year for non-residents who are taxable in Luxembourg and receive overtime pay.
- > **Cap:** The tax credit is capped according to the gross remuneration for overtime work:
  - EUR 0 for gross annual remuneration up to EUR 1,200
  - ¼ of the difference between the gross annual remuneration and EUR 1,200 - Part between EUR 1,200 and EUR 4,000
  - EUR 700 for a gross annual remuneration exceeding EUR 4,000
- > **Conditions for the CIHS:**
  - The taxpayer must be a resident of a country with which Luxembourg has a double taxation treaty.
  - The treaty must grant Luxembourg the right to tax the gross remuneration.
  - The taxpayer's country of residence must not provide any tax exemption or tax reduction for overtime pay.
- > **Application:** The CIHS is granted upon request as part of the personal tax return.



## **Taxation of natural persons (Continued)**

### TAX EXEMPTION FOR UNQUALIFIED MINIMUM WAGE EARNERS (SSMNQ) AND ADJUSTMENT OF THE TAX CREDIT ON SOCIAL MINIMUM WAGE (CISSM)

- > **Increase in the social minimum wage tax credit (CISSM):** The social minimum wage tax credit will be increased to a maximum of EUR 81 per month, so that a worker earning the minimum wage for unskilled workers and classified in tax class 1 will pay no taxes at all.
- > **Effective from January 1<sup>st</sup>, 2025:** All employees earning the **unqualified minimum wage** will be **tax-exempt**, providing financial relief.
- > **Social Security Contributions:** These will continue to be **paid as usual**.

## MODIFICATION OF THE BENEFIT-IN-KIND (ATN) FOR COMPANY CARS

- > **Simplification of the ATN system:** From 2025 onwards, the ATN system will be simplified for all new contracts, with preferential rates only for zero-emission vehicles and a single rate for all other types of engines.
- > **Doubling of rates for zero emission vehicles:** The rates for zero CO<sub>2</sub> emission vehicles, in particular 100 % electric cars, will be doubled to reflect their growing success. They will increase to 1 % (<18 kWh/100 km) and 1.2 % (>18 kWh/100 km).
- > **Increase in Rates for Combustion Engine Vehicles:** For all other combustion engine vehicles, including plug-in hybrids, the rate used to calculate the monthly benefit in kind will be increased to 2%, regardless of their CO<sub>2</sub> output.
- > **Extension of Transitional Favorable Tax Rates for Electric Vehicles:** However in accordance with the **regulation of December 20, 2024**, the advantageous tax rates for company cars **will be extended** to purely electric vehicles (or hydrogen fuel cell vehicles) **registered until December 31, 2026** (or by December 31, 2027 if the contract is signed by December 31, 2026). In other words, the rates will remain at 0.5 % (<18 kWh/100 km) and 0.6 % (>18 kWh/100 km).

## **Taxation of natural persons (Continued)**

- > This measure extends the application of favourable tax rates for vehicles with zero CO<sub>2</sub> emissions provided by an employer to an employee. The benefit in kind will continue to be calculated based on a more favourable monthly rate, for **an additional period of two years**.

### INCREASE IN THE ALLOWANCE FOR EXTRAORDINARY EXPENSES DUE TO CHILDREN NOT FORMING PART OF THE HOUSEHOLD

- > **New amount:** The maximum amount of the allowance for children not living in the taxpayer's household is increased from EUR 4,422 to EUR 5,424 per year.





## Taxation of natural persons

*(Continued)*

- Increase in Luxembourg minimum social wage
- Social parameters
- Introduction of Mandatory Electronic Filing for Withholding Tax Declarations on Wages and Tax Credits
- Certificates of incapacity for work – New online form
- Adjustment of subsistence allowances
- Time limit for filing a tax refund claim

## Taxation of natural persons (Continued)

### INCREASE IN LUXEMBOURG MINIMUM SOCIAL WAGE (AS OF 1<sup>ST</sup> JANUARY 2025)

> Improvement of the social minimum wage through a 2.6 % increase

Index 944.43	Previous Gross monthly wage	Gross monthly wage since 1 <sup>st</sup> January 2025	Previous Gross hourly wage	Gross hourly wage since 1 <sup>st</sup> January 2025
Qualified Employees (120 %)	EUR 3,085.11	EUR 3,165.35	EUR 17.8330	EUR 18.2968
Unqualified Employees (100 %)	EUR 2,570.93	EUR 2,637.79	EUR 14.8608	EUR 15.2473
Employees aged from 17 to 18 years (80 %)	EUR 2,056.74	EUR 2,110.23	EUR 11.8887	EUR 12.1979
Employees aged from 15 to 17 years (75 %)	EUR 1,928.20	EUR 1,978.34	EUR 11.1456	EUR 11.4355
Indicator 100	279.30 (previously: 272.22)			
CCSS upper limit (monthly)	EUR 13,188.96 (previously EUR 12,854.64)			



## Taxation of natural persons (Continued)

### SOCIAL PARAMETERS (AS OF 1<sup>ST</sup> JANUARY 2025)

#### > Mutuality of employers:

Class	1	2	3	4
2024 in %	0.01	0.01	0.42	1.36
2025 in %	0.07	0.99	1.48	2.64

#### > Accident insurance :

Bonus-malus factor	0.85	1	1.1	1.3	1.5
2024 in %	0.595	0.70	0.77	0.91	1.05
2025 in %	0.595	0.70	0.77	0.91	1.05

#### > Health in the workplace:

	2024	2025
in %		0.14

All other parameters will remain unchanged in 2025.

## INTRODUCTION OF MANDATORY ELECTRONIC FILING FOR WITHHOLDING TAX DECLARATIONS ON WAGES AND TAX CREDITS

- > Starting January 1, 2025, all tax declarations must be filed electronically, using an XML file. This applies not only to tax declarations for the year 2025, but also to any changes for 2024.

## CERTIFICATES OF INCAPACITY FOR WORK – NEW ONLINE FORM

- > Starting January 2025, certificates of incapacity can be sent to the CNS either by post or by using the new online form.

Recommendation: Use the online form to simplify and speed up this process!

<https://cns.public.lu/de/assure/actualites/comment-declarer-incapacite-travail.html>

## **Taxation of natural persons (Continued)**

### ADJUSTMENT OF SUBSISTENCE ALLOWANCES

- > Travel and subsistence expenses have been adjusted. As the amounts vary from country to country, please refer directly to the regulation dated December 13, 2024.

### TIME LIMIT FOR FILING A TAX REFUND CLAIM

- > The deadline for submitting an application for a tax refund is December 31<sup>st</sup> of the year following the fiscal year in question.



# Budget law / Housing measures

- Deductibility of Borrowing Costs ('interests expense') Related to personal Housing from the 2024 Tax Year onwards
- « Housing » tax measures for fiscal year 2024:
  - "Bëllegen Akt" Tax Credit
  - Capital Gains on Real Estate Sales
  - Exemption of Capital Gains from Social Housing and Energy Performance Class A+
  - Accelerated Depreciation and Depreciation Rates for Rented Real Estate

## **Deductibility of Borrowing Costs (‘interests expense’) Related to personal Housing from the 2024 Tax Year onwards**

- > New regulation on the **deductibility of borrowing costs** for housing that is owner-occupied or intended for personal use.
- > New annual maximum deduction limits:
  - **Fully deductible** in the year of determining the rental value and the following year.
  - **EUR 4,000** deductible for the second year after determining the rental value and the next three years.
  - **EUR 3,000** deductible for the five subsequent years.
  - **EUR 2,000** deductible for all subsequent years.

This regulation applies to housing occupied under ownership rights, usufruct, or under free use.



# « Housing » tax measures for fiscal year 2024

- > **A new package of measures:** A comprehensive package to stimulate the housing market, including temporary and permanent measures.
- > **Temporary Measures:** These only apply to the 2024 fiscal year, but have been extended for an additional **six months** by a government bill dated **December 18, 2024**.

## “BËLLEGEN AKT” TAX CREDIT

- > for the Main Residence:
  - Extension of the **increase** from **EUR 30,000 to EUR 40,000** per individual (doubled for couples) for the purchase of the main residence.
  - Valid until **June 30, 2025**.
  - Must be documented by a notarized deed.

- > for Investments (VEFA):
  - Extension of the **registration fee relief** of **EUR 20,000** per individual (doubled for couples) for the purchase of eligible real estate.
  - Valid until **June 30, 2025**.
  - Applies to **off-plan properties (VEFA)** if the **rental period is at least two years**.

## CAPITAL GAINS ON REAL ESTATE SALES

- > Extension of the Tax Relief:
  - Capital gains from real estate sales are taxed at **25 %** of the global rate if the property has been owned for **at least two years**.
- > Change from July 1<sup>st</sup>, 2025 onwards:
  - From July 1<sup>st</sup>, 2025 onwards, taxation will be at **50 % of the global rate** if the property has been owned for **more than five years**.
  - These changes replace the known rule, which until 2023 allowed for taxation at 50% of the global rate after **two years of ownership**.

# « Housing » tax measures for fiscal year 2024 *(Continued)*

## EXEMPTION OF CAPITAL GAINS FROM SOCIAL HOUSING AND ENERGY PERFORMANCE CLASS A+

- > Extension of the exemption from capital gains tax for properties converted into social housing or meeting the A+ energy class standard.
- > This exemption only applies to properties used for the rental of social housing in Luxembourg.



## ACCELERATED DEPRECIATION AND DEPRECIATION RATES FOR RENTED REAL ESTATE

- > Extension of the increase in the accelerated depreciation rate to 6 % over a period of six years for notarised VEFA off-plan property purchases.
- > Applies to properties purchases made before June 30, 2025.
- > The total annual depreciation limit is EUR 250,000.
- > Other depreciation rates remain unchanged.



## Legal / Corporate

- Updating the Luxembourg national identification numbers (NINL) and Luxembourg addresses in the RCS
- ASBL - Adaptation of the Articles of Association to the new law of 7 August 2023 and formalities for filing with the RCS by September 23, 2025
- New size criteria for examination requirements

## Luxembourg RCS | New Filing Formalities with the RCS:

- > **Implementation Date:** Effective as of November 12, 2024
- > **Affected Area:** Luxembourg Trade and Companies Register (« RCS »)
- > **Objective of the Changes:** Simplification and modernization of the filing processes

## New Formality for Natural Persons in the RCS:

- > **Background:**
  - Transition from offline PDF RCS filing forms to online HTML forms
  - Introduction of mandatory submission of the **Luxembourg national identification number** (« NINL », also known as « matricule number » or « CNS number »)
  - Legal Basis: Amended Law of June 19, 2013, on the identification of natural persons
- > **Obligation to Provide the NINL:**
  - Applies to any natural person associated with an entity registered with the RCS
  - **Affected roles:** Shareholders, managers/board members, auditors of financial statements, etc.
  - Required in cases of:
    - Registration of new natural persons in the RCS or
    - Changes to existing records (with a transitional rule: optional for other changes)
- > **Handling of the NINL:**
  - The NINL is not shared with third parties
  - It does not appear on documents issued by the administrator, pre-filled filing forms, or the RCS portal



## **Aktualisierung der luxemburgischen nationalen Identifikationsnummern (NINL) und der luxemburgischen Adressen im RCS**

### What About Individuals Who Do Not Have a NINL?

- > **Individuals Without a NINL:**
  - Primarily foreign individuals who neither live nor work in the Grand Duchy of Luxembourg
- > **Application for NINL Creation:**
  - Must be requested during the RCS filing process
  - Additional information required in the application form:
    - Gender, nationality, and private residence
- > **Use of Information:**
  - Data is not recorded in the RCS
  - It is forwarded to the Government Center for Information Technology (CTIE) for inclusion in the National Register of Natural Persons (RNPP)
- > **Required Supporting Documents:**
  - **Proof of identity:**
    - Copy of ID card or passport
  - **Proof of private address:**
    - Certificate of residence,
    - Affidavit (certified by an authority), or
    - Utility bill for water, electricity, gas, phone, or internet.

## Updates:

The Law of August 7, 2023, introduces the following changes for non-profit associations (*Association sans but lucratif* – « ASBL »):

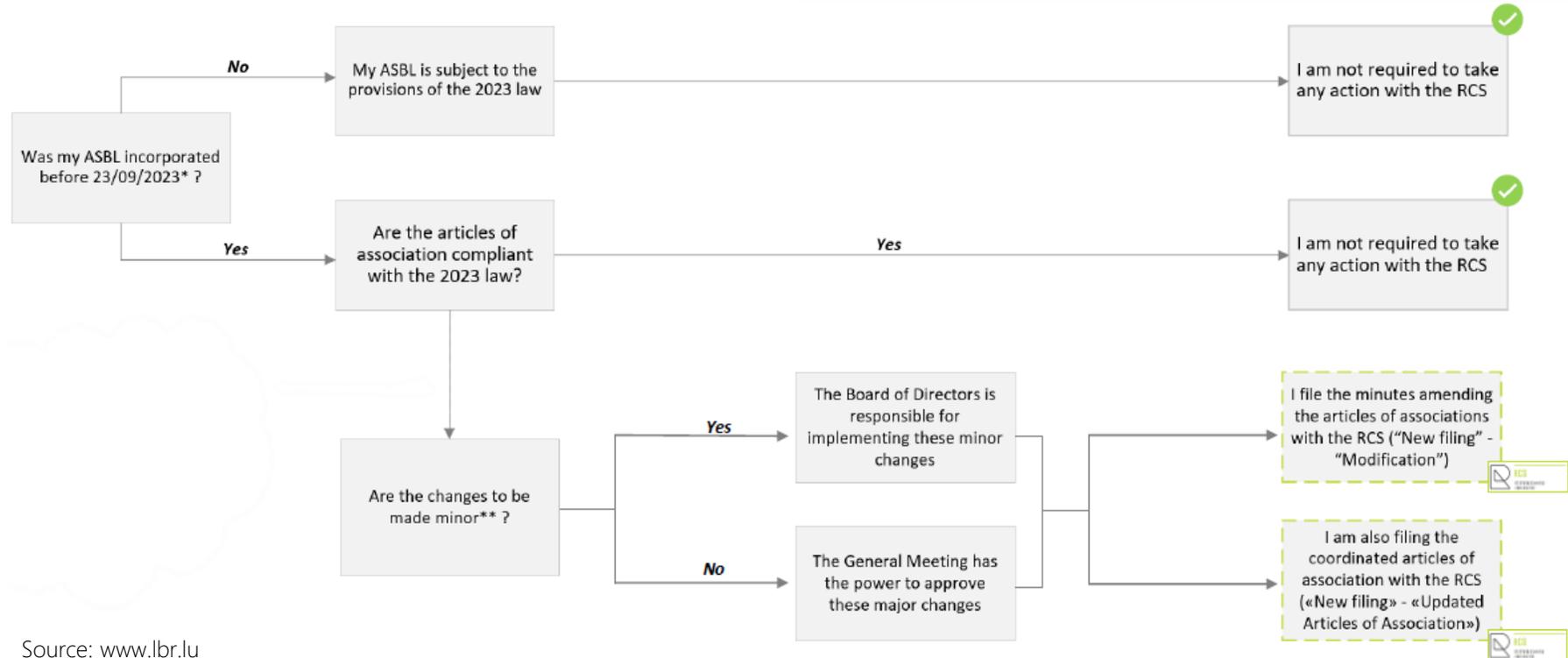
- > the **annual filing of updated member lists** with the court is no longer required; it suffices to **keep them up to date at the registered office of the ASBL**.
- > the status of « adherent members » (*membre adhérent*) (e.g., honorary members) is now legally recognized, and their rights and obligations can be freely defined in the articles of association.
- > Board meetings can be held via telephone or video conference; written resolutions are permissible if unanimous and provided for in the articles of association.
- > General assemblies can be conducted via telephone or video conference if allowed by the articles of association.
- > the approval threshold for donations is increased to **EUR 30,000**; bank transfers from EU or EEA countries are exempt from approval, regardless of the amount.

## **ASBL - Adaptation of the Articles of Association to the new law of 7 August 2023 and formalities for filing with the RCS by September 23, 2025**

- > the new accounting rules introduce a three-tier classification for ASBLs:
  - **small ASBL:** Up to 3 employees, a maximum annual income of EUR 50,000, and assets up to EUR 100,000; simplified accounting remains sufficient.
  - **medium ASBL:** Up to 15 employees, a maximum annual income of EUR 1 million, and assets up to EUR 3 million; double-entry bookkeeping is required.
  - **large ASBL:** More than 15 employees, annual income exceeding EUR 1 million, assets exceeding EUR 3 million, and public utility ASBLs; double-entry bookkeeping and audit by a certified accountant are mandatory.

Classification applies if an ASBL exceeds at least two of the three criteria for two consecutive financial years.

# ASBL - Adaptation of the Articles of Association to the new law of 7 August 2023 and formalities for filing with the RCS by September 23, 2025 (Continued)



Source: www.lbr.lu

**N.B.:** If, on 23/09/2025, the Articles of Association of my ASBL have not been adapted to the Law of 2023, the latter will be compulsorily applicable and any Articles of Association that are contrary to it will become inapplicable. If my ASBL becomes impossible to operate, it may be dissolved by the court.

\* Effective date of the law of August 7, 2023.

\*\* Amendments to the articles of association are minor when they aim to change/adapt references to article numbers of the old 1928 law appearing in the articles of association.



## Updates to Luxembourg's Size Criteria:

The latest Grand Ducal Regulation, effective as of October 25, 2024, has raised the financial thresholds for classifying companies as part of the EU's efforts to reduce administrative burdens.

### New vs. Previous Size Criteria for Audit Requirements:

Under the updated rules, the financial thresholds for classifying companies as small, medium, or large have been increased as follows:

Category	previous Balance sheet total	new Balance sheet total	previous net sales	newer net sales	Number of employees
Small	up to EUR 4.4 million	up to EUR 7.5 million	up to EUR 8.8 million	up to EUR 15 million	up to 50
Medium	up to EUR 20 million	up to EUR 25 million	up to EUR 40 million	up to EUR 50 million	up to 250
Large	over EUR 20 million	over EUR 25 million	over EUR 40 million	over EUR 50 million	over 250

## **New size criteria for examination requirements**

### Key Impacts on Audit Requirements:

- > **Small Companies:** Companies now classified as "small" under the new thresholds **may no longer require statutory audits**. This change has significant implications for clients who previously met audit thresholds under the old criteria but now fall under the exemption.
- > **Medium and Large Companies:** Companies classified as medium or large will **still require statutory audits**. However, **certain medium-sized companies may now qualify for exemption** if they are classified as small under the new thresholds.
- > These changes apply to financial years beginning on or after January 1, 2023, with the effects of reclassification taking effect from the 2025 financial year.

# Who to contact?

Taxation of legal entities and VAT:

Caroline Gresse: [cgresse@eurolux.lu](mailto:cgresse@eurolux.lu)

Accounting:

Claudio Da Silva: [cdasilva@eurolux.lu](mailto:cdasilva@eurolux.lu)

Taxation of natural persons:

Javier Vizcaya: [JVizcaya@eurolux.lu](mailto:JVizcaya@eurolux.lu)

Legal / Corporate:

Tabitha Koll: [TKoll@eurolux.lu](mailto:TKoll@eurolux.lu)



# THANK YOU

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Eurolux Group

196, rue de Beggen L-1220 Luxembourg

[www.eurolux.lu](http://www.eurolux.lu)