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WHAT'S NEW IN 2026?



Taxation of Legal Entities – Corporate Tax Measures

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Modernized Tax attractive Carried Interest Regime

Overview

The Luxembourg parliament has adopted on January 22, 2026 the Draft Bill No. 8590 modernizing the personal tax treatment of carried interest, with effect from 2026 tax year.

The bill is part of a strategic effort to to better attract active fund management and other front-office talent.

The tax regime applicable till date to carried interest in Luxembourg is governed by Article 99bis of the Luxembourg Income Tax Law and by the law of 12 July 2013 on Alternative Investment Fund (AIF) Managers and the aims of this new law was to broaden the eligible beneficiaries and the scope of application which were to narrow.

The new regime is simplified, better defined, and offers enhanced tax benefits to a larger scope of beneficiaries , as outlined below.

New tax regime

Eligible beneficiaries

The reform widens the category of eligible beneficiaries. Beyond employees of the AIF or its management entity, it now covers individuals performing managerial functions.

The regime applies to individuals who are actively involved in the management of Alternative Investment Funds (AIFs). This includes:

- Individuals performing management functions—whether as employees, partners, managers, or directors—of an AIF, an AIF manager, or a management company; and
- Individuals involved in the management of an AIF under a service agreement, irrespective of whether such agreement is concluded directly with the AIF or indirectly through one or more intermediary entities.

The following clarifications must also be noted:

- The regime does not apply to individuals carrying out purely administrative functions;
- Eligible beneficiaries must be tax resident in Luxembourg, both for domestic tax purposes and under applicable tax treaties.
- The previous requirement for investors to fully recover their invested capital before managers receive carried interest has been removed, allowing more structures to fall within the regime and more flexibility for deal-by-deal structures.
- In contrast to the former regime, which limited the allocation of carried interest to a ten-year period following its grant or implementation, the new legislation removes any time limitation for eligible beneficiaries.

Modernized Tax attractive Carried Interest Regime *(continuation)*

Introduction of a broader definition

The new bill defines carried interest broadly as the entitlement to a portion of an AIF's outperformance, granted through specific rights linked to the fund's net asset value and income. As a result, any fund qualifying as an AIF falls within the scope of the regime, regardless of the asset class.

Under the revised legislation, carried interest is treated as a speculative capital gain rather than as employment or trading income and, consequently, is not subject to social security contributions.

Carried interest— defined as profit-sharing tied to capital gains or profit sharing on out-performance —would be taxed upon receipt, regardless of whether it is paid by the alternative investment fund or its general partner.

Typically, entitlement to carried interest arises once the fund reaches a pre-agreed 'hurdle rate' (the minimum return investors must receive before managers share in additional profit). The bill specifies that this hurdle rate must be in line with market standards and cannot be unduly low.

Clearer definitions

The bill retains the existing distinction between two types of carried interest but offers clearer definitions.

- **Contractual carried interest:**

This type does not require the beneficiary to hold an investment in the AIF. Contractual carried interest **will qualify as speculative gain and will be taxed as extraordinary income at one quarter of the taxpayer global tax rate - approximately 12% - with no time limits.**

Accompanying commentary warns that standard remuneration or bonuses must not be artificially recharacterized as carried interest, though no specific criteria are provided.

- **Participation-linked carried interest:**

Here, the beneficiary **must hold a direct or indirect interest in the AIF** (or a participation representing such an interest). **Income also qualifies as speculative gain but is fully tax-exempt, provided the participation is held for more than six months and the individual does not hold a substantial interest (i.e. not more than 10%) in a corporate vehicle.**

Modernized Tax attractive Carried Interest Regime *(continuation)*

Tax Benefits for Luxembourg Managers and Funds

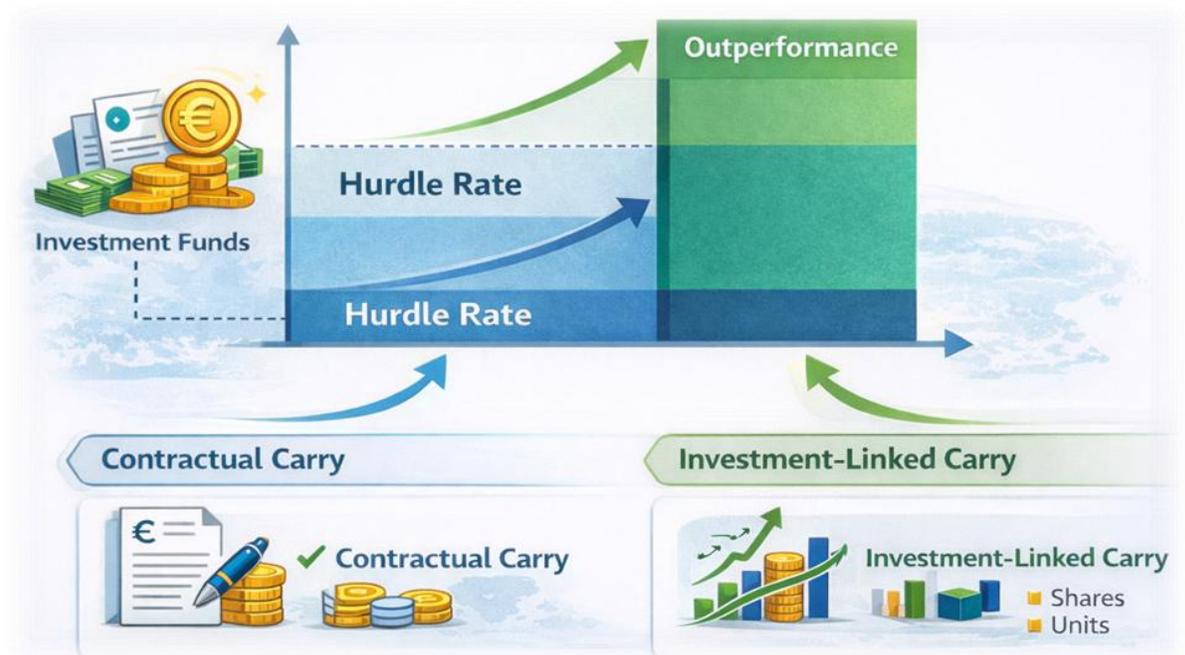
- Very efficient tax regime for the eligible beneficiaries working in the private equity and alternative fund sectors in Luxembourg
- Under the revised bill carried interest qualifies as speculative capital gain rather than employment or trading income and, as a result, would not be subject to social security contributions.
- Potentially still even more attractive if combined with in-patriate tax regime (50% exemption on qualifying remuneration up to EUR 400,000)

Attractivity of Luxembourg

This reform positions Luxembourg as a European leader in the taxation of carried interest (carried interest is subject to higher taxation in most other European countries, and even in the United Kingdom).

As Luxembourg is already highly specialized in the field of investment funds, this reform further strengthens its dominant position as an increasingly competitive jurisdiction for private equity and alternative investment structures by providing clearer legal certainty and more predictable tax treatment for fund managers and investors.

Stakeholders should closely follow these new changes in Luxembourg and assess their carried interest structures to ensure regulatory compliance and maximize tax efficiency.



DAC8 Implementation: EU Crypto-Asset Tax Reporting

In July 2025, Bill No. 8592 was tabled (still subject to final vote by the Luxembourg parliament) to transpose Council Directive (EU) 2023/2226 (DAC8) into domestic law.

DAC 8

DAC 8 constitutes the eighth amendment to the Directive on Administrative Cooperation in the field of Direct Taxation and is intended to substantially reinforce the European Unions' framework for the automatic exchange of information framework. By extending tax transparency obligations to crypto-assets, the Directive seeks to address tax fraud, evasion and avoidance within a rapidly expanding and highly decentralised market.

The rules of DAC 8 are closely aligned with the OECD Crypto-Asset Reporting Framework and introduce more stringent due-diligence and reporting obligations on Reporting Crypto-Asset Service Providers.

Progress of the Draft law in Luxembourg

The legislative process is however still ongoing, with adoption expected in early 2026 (but delayed for the time being). Once enacted, the new rules should apply with effect as from 1 January 2026, introducing an EU-wide tax reporting framework covering crypto-assets, e-money and central bank digital currencies.

Scope of the Draft law : Exchange of information on crypto assets

Crypto-assets service providers subject to reporting obligations

The Luxembourg Draft law establishes due diligence and reporting obligations for crypto-assets service providers authorized in the Grand-Duchy of Luxembourg under the MiCA Regulation (MiCA is an EU regulation (Regulation EU 2023/1114) that established a harmonized legal framework for crypto-assets accross all the EU member states). These new obligations will also impact also crypto-asset service providers and operators that facilitate transactions for EU residents, regardless of their size or location, i.e. whether based in EU or in a third country.

Activities in scope of the draft law

The Draft Law applies to service providers operating within the crypto-asset market. This covers a range of activities, including the management of crypto-asset portfolios, the custody and administration of crypto-assets on behalf of third parties, the operation of crypto-asset exchange platforms, the exchange of crypto-assets for fiat currency or other crypto-assets, and the execution of client orders.

DAC8 Implementation: EU Crypto-Asset Tax Reporting *(continuation)*

Reportable Users

Under the Draft Law, Reportable Users are defined as EU-resident individuals or entities that are customers of a reporting crypto-asset service provider. The draft Law establishes specific exclusions, notably for:

- companies listed on regulated stock exchanges and their related parties,
- governmental entities,
- International organisations,
- central banks, and certain other financial institutions.

Transactions carried out by users falling within these exclusions do not qualify as reportable.

Crypto-assets providers requirements

• *Due diligence requirements*

Under the Draft law, Crypto-asset service providers are required to register with the Luxembourg tax authorities and comply with the due diligence procedures.

To this end, they must collect and verify information relating to crypto-asset users who qualify as reportable users, or who have controlling persons that constitute reportable persons.

The purpose of these due diligence procedures is to enable service providers to determine, through the use of self-certifications, whether their clients are reportable. These procedures must be applied not only to new customers, but also to existing clients.

• *Reporting obligations*

Reporting crypto-asset service providers must submit information annually to the Administration des contributions directes (“ACD”) regarding crypto-asset users—namely, individuals or entities that use the provider to trade or exchange crypto-assets.

Reports must be filed **by 30 June of the year following the relevant civil year**. If a provider has no reportable users for a given period, it must still file a nil report.

Normally, provided the draft law voted as such, the first reporting would be expected to be filed 30 June 2027 (for FY 2026 reports) since the law is expected to enter in force with effect as from January 1st, 2026.

DAC8 Implementation: EU Crypto-Asset Tax Reporting *(continuation)*

- *Simplification Measures*

To reduce the risk of duplicate reporting within the European Union, the Draft Law introduces an exemption mechanism that allows providers to be relieved from due diligence and reporting obligations in Luxembourg, provided certain conditions are satisfied. Moreover, to avoid overlapping procedures between the Draft Law and the CRS Law, the Draft Law allows crypto-asset service providers that qualify as financial institutions under the CRS Law to rely on the due diligence procedures already implemented under that regime to meet their DAC8 obligations.

- *Exchange of Information*

As a final step, the Luxembourg tax authorities will forward the reported information to the competent authorities of the reportable users' jurisdictions of residence by 30 September of the year following the calendar year concerned. The first exchange of information will relate to the calendar year beginning 1 January 2026.

Other considerations and conclusion

The Draft law is not limited to crypto-asset considerations but also covers other topics which remain subject to ongoing debate. The delay in the adoption of this Draft Law by the Luxembourg Parliament is mainly due to a busy end-of-year agenda (transposition of DAC 9 (Pillar Two / top-up tax reporting), as well as in the implementation of other significant reforms (including carried interest and changes to individual tax classes)).

➤ *Once enacted, will provide you with more detailed information in a separate Newsletter.*



PILLAR II in Summary

Objective of PILLAR II

Pillar Two introduces a global minimum effective tax rate of 15% to ensure that large multinational and domestic groups pay a minimum level of tax in each jurisdiction where they operate. The rules are implemented through the OECD GloBE framework and, in the EU, via Directive (EU) 2022/2523.

Groups in Scope

Pillar Two applies to groups that:

- Have consolidated revenue of at least EUR 750 million; and
- Meet this threshold in at least two of the four preceding fiscal years.

The regime applies to multinational enterprise (MNE) groups and large domestic groups.

Scope is determined by financial consolidation, not by legal form or activity.

Core Concept: Effective Tax Rate (ETR)

For each jurisdiction, the group must compute a GloBE Effective Tax Rate (ETR):

$ETR = \text{Covered Taxes} / \text{GloBE Income}$

If the ETR is at least 15%, no additional tax arises. If the ETR is below 15%, a top-up tax applies.

Luxembourg – Applicability of Pillar II Mechanisms (Summary)

All three Pillar Two mechanisms are implemented in Luxembourg. However, they do not apply with the same frequency or practical relevance.

1. Qualified Domestic Minimum Top-Up Tax (QDMTT)

Luxembourg has fully implemented a Qualified Domestic Minimum Top-Up Tax. Where a Luxembourg constituent entity has an effective tax rate below 15%, Luxembourg has primary taxing rights to levy the top-up tax locally. In practice, QDMTT is the most relevant Pillar Two mechanism for Luxembourg entities.

2. Income Inclusion Rule (IIR)

Luxembourg applies the Income Inclusion Rule. A Luxembourg Ultimate Parent Entity or Intermediate Parent Entity may be required to pay top-up tax in Luxembourg on low-taxed foreign subsidiaries, where no qualifying QDMTT applies in the subsidiary's jurisdiction.

3. Undertaxed Profits Rule (UTPR)

Luxembourg has implemented the Undertaxed Profits Rule as a secondary backstop. UTPR applies only where neither a QDMTT nor an IIR captures the top-up tax. In practice, UTPR is expected to apply only in limited cases.

Conclusion

While all three mechanisms are legally applicable in Luxembourg, QDMTT and IIR are the most significant in practice. UTPR remains a residual mechanism of last resort.

PILLAR II in Summary *(continuation)*

Excluded Entities of PILLAR II

Certain entities may be excluded from top-up tax, subject to conditions, including:

- Government entities
- Pension funds
- Non-profit organizations
- Qualifying investment and real estate funds

Excluded status must be assessed and documented.

Safe Harbours and Transitional Relief

Pillar Two provides transitional and simplified safe harbours, including the CbCR safe harbour, to reduce compliance burdens in the initial years.

Practical Compliance Impact

Even where no top-up tax is due, groups must perform scope analyses, collect detailed data, compute GloBE results, and file Pillar Two information returns.

Key Takeaway

Pillar Two is primarily a compliance and data-governance regime rather than a tax rate increase. The main challenge lies in systems, data, and reporting.

A detailed newsletter will follow shortly to cover all the specificities and filing obligations (limited of full in scope).

Note: Detailed information will be provided in a separate newsletter mid-February 2026.

DAC9 Transposition / Side-by-Side Package and Filing Obligations

Transposition of DAC 9 into Luxembourg tax law

On 17 December 2025, the Luxembourg Parliament passed the law on the exchange of information relating to the "top-up tax information return," transposing Directive (EU) 2025/872 (DAC9).

This legislation amends the law of 22 December 2023 implementing Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups within the European Union (the Pillar Two Directive).

The objective of the new law is to streamline compliance with Pillar Two filing obligations and to align Luxembourg's framework with the latest OECD Administrative Guidance.

OECD releases Side-by-Side Package on Pillar Two

On 5 January 2026, the Organisation for Economic Co-operation and Development released a comprehensive package for a "side-by-side arrangement" with respect to the Pillar Two global minimum tax rules.

The package includes Administrative Guidance that introduces four new Safe Harbours.

One of the Side-by-Side (SbS) Safe Harbour provides that MNE Groups with an Ultimate Parent Entity (UPE) in a jurisdiction with a Qualified SbS Regime will not be subject to the Income Inclusion Rule (IIR) or Undertaxed Profits Rule (UTPR) if they elect the SbS Safe Harbour. These MNE Groups will remain subject to Qualified Domestic Minimum Top-up Taxes (QDMTTs).

Note:
A detailed newsletter will be released in February to cover exclusively Pillar Two aspects.

DAC9 Transposition / Side-by-Side: Package and Filing Obligations *(continuation)*

The Side-by-Side Safe Harbour allows multinational groups headquartered in a jurisdiction with a qualified domestic minimum tax regime (currently the United States) to be deemed subject to a zero top-up tax under both the Pillar Two Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR). To date, the United States (US) is the only jurisdiction that has been identified in the Central Record of Legislation with Qualified Status as having a Qualified SbS Regime, with the SbS Safe Harbour applicable to the US as of 2026.

This new safe harbor does not affect the application of the Pillar Two rules to MNE Groups with a UPE in the US in 2024 and 2025.

Note:
A detailed newsletter will be released in February to cover exclusively Pillar Two aspects.

Filing Obligations in Luxembourg

From a Luxembourg perspective, the tax authorities launched the **Pillar Two registration tool** on 6 January 2026. Registration via the MyGuichet platform is mandatory for all Luxembourg-based constituent entities that fall within the scope of the Luxembourg minimum effective taxation law of 22 December 2023 (the **Pillar 2 Law**), as well as entities that qualify as joint ventures or members of a joint venture group in respect of a group in scope of the Pillar 2 Law.

Registration for fiscal year 2024 **must be completed by 30 June 2026** and requires information on the entity, the ultimate parent entity, the relevant fiscal year, Globe information return ('GIR') filing arrangements and any QDMTT or UTPR information.

Failure to comply with the registration requirements may result in a **fixed penalty of EUR 5,000**.

Following registration, in-scope entities should ensure that the necessary data is collected and aligned at group level in preparation for the **GloBE Information Return** and any applicable top-up tax filings.

- *Given the upcoming deadlines and evolving guidance, further detailed information on Pillar Two compliance in Luxembourg will be provided in a dedicated newsletter scheduled for mid-February 2026.*

Public Country-by-Country Reporting From Regulation to Public Disclosure

Luxembourg has transposed the EU Public Country-by-Country Reporting Directive (EU Directive 2021/2101) into domestic law as of 19 July 2023. The rules require certain multinational groups to report **tax and related group information publicly**, in both the **commercial register** and on the **company website**.

The obligations apply to groups whose **total consolidated revenues exceed EUR 750 million** in each of the **two preceding consecutive financial years**, and which either have their **ultimate parent in the EU** or conduct operations in the EU via a **subsidiary or branch of significant size**.

EU Public Country-by-Country (EU Public CBCR) requirements already apply to **financial years starting on or after 22 June 2024**, meaning the **first reports relate to FY 2025**, with publication deadlines by **June 2026**. The requirements are applicable to financial years commencing on or after 22 June 2024, with the first reporting obligations becoming effective in June 2026.

By way of example, for a multinational group with a calendar year-end, the report would need to be published by the end of 2026 in respect of the 2025 financial year (i.e., within 12 months following the end of the reporting period), provided the group exceeded the EUR 750 million revenue threshold both in the reportable year (2025) and in the preceding financial year (2024).

Public CbCR is an **additional layer of compliance** on top of existing **non-public CbCR obligations** (BEPS Action 13). The public report requires a **jurisdictional breakdown** for all EU Member States and jurisdictions considered **non-cooperative**, with aggregated reporting allowed for other jurisdictions. Unlike non-public CbCR, public reporting must be **clear, readable, and suitable for external stakeholders**, and may include **management statements** explaining methodology or sensitive items.

Public Country-by-Country Reporting From Regulation to Public Disclosure (continuation)

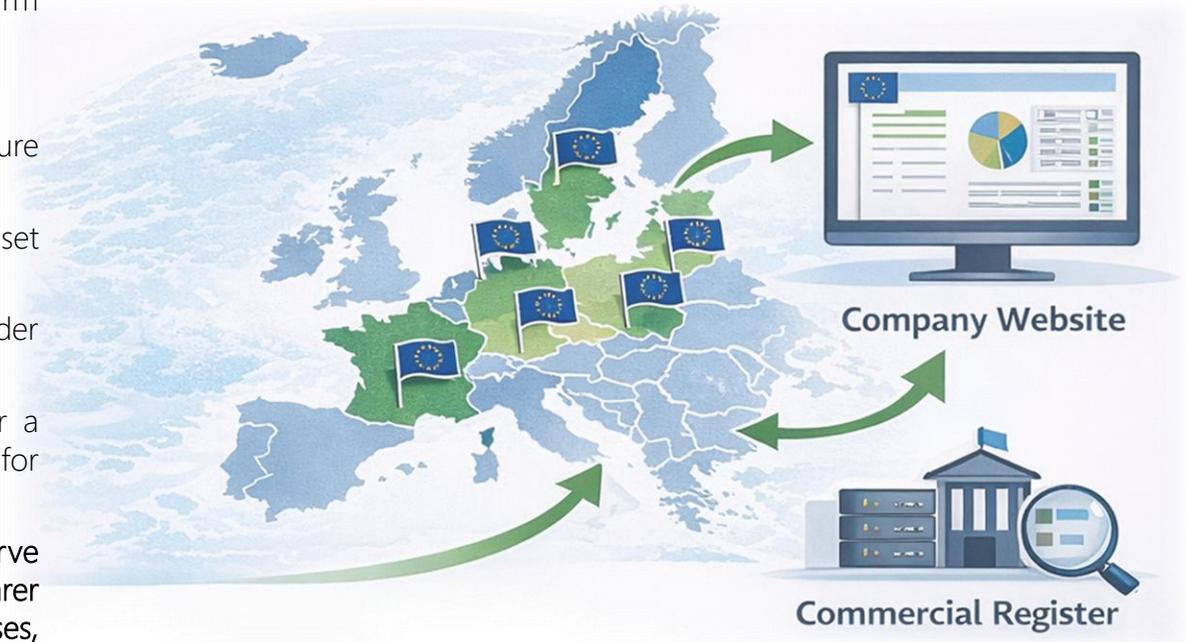
Board members and managers must note that **governance responsibilities are heightened**: compliance is a legal duty, with potential **administrative fines ranging from EUR 500 to EUR 25,000**, and auditors are required to confirm compliance within their statutory audit reports.

To prepare, in-scope groups should:

- **Assess scope and thresholds**: confirm revenue and group structure eligibility.
- **Plan publication**: assign responsibility, define internal review steps, and set timelines to meet statutory deadlines.
- **Prepare and review the report**: consolidate required data, consider explanatory notes, and ensure accuracy before publication.
- **Publish and maintain access**: make the report publicly accessible for a minimum of **five consecutive years** and monitor regulatory changes for future periods.

Beyond its administrative requirements, EU Public CbCR reporting can serve as a **strategic tool** for large multinational groups, enabling clearer communication with potential investors, smoother due diligence processes, and enhanced confidence among counterparties.

In some sectors, opacity is starting to look like a red flag.



OECD Model Tax Convention

Key Updates Affecting Cross-Border Taxation

On 19 November 2025, the OECD published updates to the OECD Model Tax Convention, which will be incorporated into a revised version expected in 2026. These updates clarify the **Commentary**, guiding the interpretation and application of tax treaties worldwide.

- A major focus is **cross-border remote working**. The Commentary to **Article 5 (Permanent Establishment)** clarifies when an individual's home may constitute a **fixed place of business** for the employer. Generally, working from home **less than 50% of any 12-month period** does not create a permanent establishment. If the **50% threshold is met**, a facts-and-circumstances analysis is required, including consideration of whether there is a commercial rationale for the remote working arrangement. The update includes practical examples aimed at promoting a consistent application across jurisdictions. Further factors must be considered, including whether there is a **commercial rationale** for the arrangement.

The update also addresses natural resource extraction, introducing an optional treaty provision covering exploration and exploitation activities in this sector. The update also addresses **natural resource extraction**, offering an **optional treaty provision** for exploration and exploitation activities.

- With respect to **associated enterprises (Article 9)**, the OECD clarifies the application of the arm's length principle to the characterization of debt versus equity, as well as its interaction with domestic interest deductibility rules, including those inspired by BEPS Action 4.
- Additionally, the Commentary introduces guidance on **tax certainty and dispute resolution**, particularly in relation to **Pillar One - Amount B** (which is an initiative to simplify and standardise the application of the arm's length principle to baseline marketing and distribution activities), supporting jurisdictions in avoiding double taxation and providing optionality for countries not adopting Amount B.

Overall, these updates **adapt the Model Tax Convention to evolving business models, remote work practices, and international tax reforms**, enhancing clarity and consistency for cross-border operations.

Why it matters

- **Remote work & PE risk:** Clarifies when home offices create a permanent establishment, helping multinationals assess cross-border tax exposure.
- **Provides guidance on debt vs. equity and interest deductibility:** supporting consistent arm's length application.
- **Dispute prevention in transfer pricing matters.**

EU Developments

Key Tax Initiatives to Watch in 2026

A few EU initiatives are expected to shape international tax compliance over the coming years, with investors, intermediaries, and multinationals needing to prepare early. Of particular note is the Directive on Faster and Safer Relief of Excess Withholding Taxes (FASTER).

The FASTER Directive (2025/50) was published in the Official Journal of the EU on 10 January 2025 and entered into force on 30 January 2025. It aims to modernize and standardize cross-border withholding tax relief, addressing inefficiencies and complexity in existing national procedures.

Key features of the Directive include

- **Digital tax residence certificate:** a common EU-wide format to simplify verification of tax residence.
- **Fast-track procedures:** two complementary fast-track processes to accelerate relief at source in addition to standard national refund procedures.
- **National registers for financial intermediaries:** intermediaries can facilitate fast-track claims efficiently.

Member States are required to transpose FASTER into domestic law by 31 December 2028, with the new rules becoming applicable from 1 January 2030.

The Directive aligns with broader EU efforts to simplify cross-border taxation, reduce administrative burdens, and improve compliance efficiency, while similar national initiatives, such as Germany's MiKaDiv rules (applying from 2027), will require reporting of detailed investor information by German paying agents.

Implications for Taxpayers

- Digitalization and standardization will facilitate faster refunds but will require compliance with new formats and procedures.
- Multinationals and investors should follow **transpositions** to ensure readiness for implementation in 2030.



Taxation of Legal Entities – VAT Measures

- E-invoicing and Digital Reporting
- Platform Economy – 1 July 2028
- Single VAT registration – 1 July 2028

VAT in the Digital Age

Key Dates and Compliance Milestones

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

1) E-invoicing and Digital Reporting

From **1 July 2030**, VAT-registered businesses will be required to issue **structured e-invoices** following a standard EU format for cross-border business-to-business (B2B) transactions within the European Union. The ultimate goal of these measures is to achieve full **harmonization of e-invoicing and digital reporting obligations** across all EU Member States, including for domestic transactions.

2) Platform Economy – 1 July 2028

Starting **1 July 2028**, digital platforms acting as intermediaries or agents for **short-term accommodation rentals** (up to 30 nights per customer) and **passenger transport** will be classified as "**deemed suppliers**" for VAT purposes. Consequently, these platforms will be **liable for VAT** on these services unless the underlying supplier provides its **valid VAT identification number** of the Member State where VAT is due and confirms to the platform operator that it will account for VAT on the supply.

3) Single VAT registration – 1 July 2028

The third pillar aims to **simplify VAT registration obligations** for businesses operating in Member States where they are not established. The key changes, set to take effect mainly from **1 July 2028**, include notably the **extension of the reverse-charge mechanism** and **One Stop Shop (OSS)** regime.





Taxation of Natural Persons – Social Aspects

- Luxembourg's Minimum Social Wages as of 1st January 2026
- Social Parameters as of 1st January 2026
- New Tax Credits and Allowances
- Other Tax Adjustments
- Future Tax Reform
- Investments and Profit-Sharing Bonus
- Pension Reform

Luxembourg's Minimum Social Wages as of 1st January 2026

The last general indexation of wages took place on 1st May 2025. Pensions, however, are increased by 1,5% as of 1st January 2026.

| Index: 968,04 | Gross Monthly Wage 1 st January 2026 | Previous Gross Monthly Wage 1 st January 2025 | Gross Hourly Wage 1 st January 2026 | Previous Gross Hourly Wage 1 st January 2025 |
|---------------------------------------|--|---|---|--|
| Qualified Employees (120%) | 3,244.48 € | 3,165.35 € | 18.7542 € | 18.2968 € |
| Unqualified Employees (100%) | 2,703.74 € | 2,637.79 € | 15.6285 € | 15.2473 € |
| Employees aged from 17-18 years (80%) | 2,162.99 € | 2,110.23 € | 12.5028 € | 12.1979 € |
| Employees aged from 15-17 years (75%) | 2,027.80 € | 1,978.34 € | 11.7214 € | 11.4355 € |
| Indicator 100 | 279.30 (unchanged) | | | |
| CCSS Upper Limit (Monthly) | 13,518.68 € (previously 13,188.96 €) | | | |

Planned Increase of Minimum Social Wages

Following the EU Directive (EU) 2022/2041, Luxembourg plans to adjust the minimum social wages in the coming weeks. This adjustment will apply only to minimum social wages and not represent a general indexation of all wages.

The expected increase is estimated to be less than 5%. A future newsletter will provide the updated figures as soon as they become available.



Social Parameters as of 1st January 2026

| Mutual Insurance – Class: | 1 | 2 | 3 | 4 |
|---------------------------|------|------|------|------|
| 2026 in % | 0.23 | 0.95 | 1.56 | 2.66 |
| 2025 in % | 0.07 | 0.99 | 1.48 | 2.64 |

| Accident Insurance – Bonus-Malus factor: | 0.85 | 1 | 1.1 | 1.3 | 1.5 |
|--|--------|---------------|--------|--------|--------|
| 2026 in % | 0.5525 | 0.6500 | 0.7150 | 0.8450 | 0.9750 |
| 2025 in % | 0.595 | 0.700 | 0.770 | 0.910 | 1.050 |

| Occupational health: | 2026 | 2025 |
|----------------------|------|------|
| in % | 0.14 | |

Also with the latest pension regime adjustments, pension contributions were increased from 8% to 8.5% for the employee, employer, and state contributions. In total, the overall pension contribution rises from 24% to 25.5% (applicable for 2026–2032).

All other parameters remain unchanged in 2026.

New Tax Credits and Allowances

Child not part of the household

If applied for, a **tax credit of up to EUR 922.50 per child** can be granted to the parent whose child is not part of their household due to arrangements to alternate the residence and who, if the family allowance is shared, does not benefit from tax class 1a. This measure only applies in 2025 and 2026.



Entitled to an early pension but continuing professional activity

Individuals who meet the conditions of entitlement for an early pension and who voluntarily continue their professional activity until the age of 65, can benefit from a new tax allowance for extended working life.

This measure **reduces the taxable income of up to EUR 9,000 per year**. However, eligibility is subject to certification of entitlement to such a pension (to be requested and issued by the CNAP).



Tax deductibility ceiling increased for private pension schemes

The tax deduction ceiling for private pension schemes is **increased from EUR 3.200 to EUR 4.500 per year**. These pension schemes are based on individual initiative and the government intends to strengthen individual pension.

Everyone can have one or several schemes, but the tax deduction ceiling remains at EUR 4.500 per year and individual.



Other Tax Adjustments

Depreciation Rules applicable to Investment Expenses for Sustainable Energy Renovations

The tax depreciation rate if undertaking sustainable energy renovations of a rented house is **increased from 6% to 10% per year**. This measure encourages investment in sustainable housing in the context of climate change and allows for a higher depreciation thus reducing the taxable rental income.



CO₂ Tax Credit

Given the fact that the CO₂ tax on energy products will be higher, mitigation of the impact of this CO₂ tax on people with low to medium incomes, is implemented by an increase of the existing CO₂ tax credit.

It will be **raised from EUR 192 to EUR 216 per year**.

"Defence Bond"

The government introduced on 15th January 2026 a sovereign bond dedicated to defence, called "Defence Bond", in order to finance eligible defence projects.

This mechanism allows private investors to support national defence expenditures. Each individual can invest between EUR 1,000 up to EUR 150,000 at a fixed interest rate of 2.25% (payable each year over a period of 3 years). Most important, **interests earned by resident individuals on these specific bonds will be fully tax exempt**.

Initially, the bonds were only made available until 30th January 2026 or up to reaching the investment threshold of EUR 150 Mio. The latter was already achieved after 1 day.



Seasonal, Casual, Trainee Workers or Students

Employers who hire temporary staff for occasional work can, under certain conditions, apply a flat-rate withholding tax on wages (for students = full tax exemption).

From 1st January 2026 onwards, the maximum hourly wage threshold to **benefit from this flat-rate withholding tax is increased from EUR 16 to EUR 18**.

Also, the maximum continuous working period will **increase from 18 to 30 consecutive days** for workers in the agricultural, viticultural or forestry sectors, permitting to cover the entire duration of their activities such as the grape harvest.



Future Tax Reform

New Tax Class

As of today, the government considers to introduce a whole **new tax class**, starting with the fiscal year **2028 (foreseen)**.

The idea is to merge all 3 existing tax classes (1, 1A and 2) into a single (new) tax class, so that the marital status or children don't have an influence on the withholding taxes.

The new tax class should be similar to the actual tax class 1A that we know today. But it will be "better", meaning that those belonging to tax class 1 and 1A will pay less taxes. Those in tax class 2 will have to assess if there might be a negative impact and, if so, opt for a **transition period of 25 years**, thus remaining in the "old" tax class 2. In the end, no one should have a disadvantage with the new tax reform.

Also, in case of death of the partner or divorce during the transition period (25 years), the "old" tax class 2 will remain for 5 additional years after the event (instead of 3 years as of now).



Additional measures under discussion

Finally, alongside this important tax law update, further amendments are discussed today, such as:

- Early childhood allowance: EUR 5.400 per year and child under 3 years of age
- Voluntary pension insurance contributions paid by one partner benefiting the other, which stopped or reduced his working activity, will be tax deductible
- Single-parent tax credit: increased from EUR 3.504 to EUR 4.008 per year
- Tax allowance for children not part of the household: raised from EUR 5.424 to EUR 5.928 per year
- Deductible insurance threshold: increased from EUR 672 by individual and year to EUR 900 per year
- House-saving schemes: raised from EUR 672/1.344 to EUR 900/1.500 by individual and year
- Forfeit allowance for domestic help expenses, assistance and care expenses due to dependency, and childcare expenses: increased from EUR 5.400 to EUR 6.000 per year
- Extraordinary charges: update of percentages used to compute the household's own charge
- New indexation mechanism for the tax rates: After 3 general wage indexations, the tax rates will be adjusted to consider the increase of general prices

Investments and Profit-Sharing Bonus

Investments in Start-Ups

Resident individuals investing in start-ups will benefit from a new tax credit designed to improve access to financing of Luxembourg start-ups in their early years.

To be eligible, start-ups must meet certain criteria related to **innovation, size, and age**. Investors are also required to comply with minimum conditions, such as the **investment amount** (min. EUR 10,000) and the **holding period** (min. 3 years).

The **tax credit amounts to 20% of their investment, up to a maximum of EUR 100,000 per year**, aiming to mobilize private savings in support of innovative, local Small and Medium-sized Enterprises (SMEs).



Reporting profit sharing bonuses

For administrative simplification purposes, the **annual submission** of the list of employees who have received a profit-sharing bonus ("*prime participative*" - as foreseen in Article 115, number 13a of the L.I.R.) **must be made before 1st March of the following tax year**.

This deadline applies from the 2025 tax year onwards.

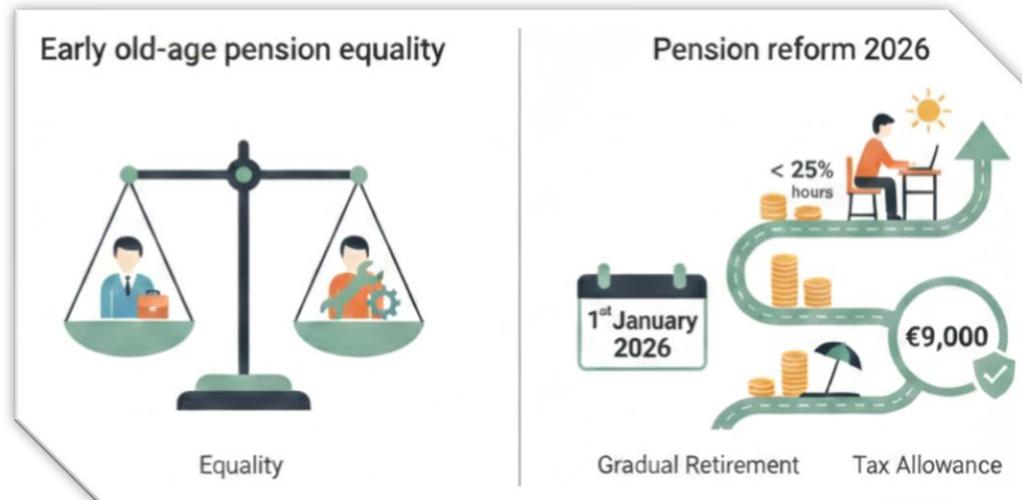


Pension Reform

Adapting Early Old-Age Pension Schemes

The Luxembourg Constitutional Court confirmed on 1st March 2024 an inequality between early old-age pension beneficiaries depending on whether they are employees or self-employed.

To remedy this, the Chamber of Deputies adopted a bill on 18th December 2025. The bill aligns the rules for self-employed workers with those already in place for employees, including the same **anti-cumulation provisions**, making the system fairer for everyone.



Pension Reform: Effective from 1st January 2026

The 2026 pension reform aims to ensure **long-term financial sustainability** while offering greater **flexibility** to insured persons. Key changes include:

- **Longer contribution period:**

The compulsory insurance period of **480 months** will gradually increase by up to **eight additional months** starting from 1st July 2026, applicable only for the **early old-age pension from age 60**. The standard early old-age pension at 57 with 480 months of contributions, and the legal pension at age 65, remain unchanged.

- **Recognition of study periods:**

Up to **nine years of study or professional training** after the age of 18 may now be counted towards the pension, with **no upper age limit** (previously limited to 18–27 years).

- **New gradual retirement system:**

A **partial early retirement system** allows individuals to reduce working hours by at least 25% while receiving a **compensatory early old-age retirement allowance**.

➤ **Eligibility:** Employees must meet the conditions for an early old-age pension (40 years of contributions) and have worked for the last three years at **75% or more of full-time conditions**.

The allowance corresponds to a **pro-rata early pension entitlement** and is fully reimbursed to the employer by CNAP.

The existing “préretraite” continues to coexist. The main difference is that the new system **does not require hiring an unemployed person from ADEM**.

In summary, the new system allows individuals to enter early old-age retirement while **continuing to work part-time**, benefiting from a new tax allowance of **up to EUR 9,000 per year**, providing greater flexibility compared to full-time early retirement.



Legal / Corporate

- New Law – Faster Identification and Exclusion of Directors with Management Bans
- Simplifying Sàrl Formation (Bill No. 8669, filed 16/12/2025)
- Modernizing Company Identification (Bill No. 8680, filed 07/01/2026)

Faster Identification & Exclusion of Directors with Management Bans

The Law of 19 December 2025, published in Mémorial A No. 603 and entering into force on 23 December 2025, implements Directive (EU) 2019/1151 on the use of digital tools and processes in company law. Its main objective is to ensure that individuals subject to a management ban cannot manage companies in Luxembourg, including bans imposed by courts in other EU Member States. The Luxembourg Business Registers (LBR) is empowered to verify whether a proposed or existing company director, manager, or authorised representative is affected by a disqualification, using the European system interconnecting national business registers.

The regulation does not only apply to new appointments.

If a management ban is imposed after a person has already been registered, the LBR can **remove the entry ex officio**. This mechanism previously existed for bans issued by Luxembourg courts, particularly in cases of insolvency due to gross misconduct, and the law now extends it to bans imposed in other EU Member States. To implement these controls effectively, the law requires that the register contains detailed information about each ban, including the **duration, start and end dates, and full identity of the individual**, which can be exchanged via the EU interconnection system.

Where a ban exists, LBR may refuse registration, remove existing entries, and notify the company concerned, which must take corrective action within 30 days; otherwise, the file is transmitted to the public prosecutor. Only bans **comparable to those under Luxembourg law** are taken into account, and any decision to refuse or remove an entry remains **appealable before administrative courts**.

The law applies to company forms covered by Annex II of Directive (EU) 2017/1132, including SA, SCA, and Sàrl, and concerns **irrevocable judicial decisions imposing professional disqualification**. Overall, the reform strengthens corporate governance, improves **cross-border transparency**, and facilitates the rapid identification and exclusion of individuals prohibited from exercising management functions.



**Exclusion of Directors
with Management Bans**

Draft Laws

PENDING LEGAL DRAFT

Simplifying Sàrl Formation

(Bill No. 8669)

Proposed reform aims to make the incorporation of private limited companies (Sàrl) **faster and simpler** while maintaining creditor and investor protections.

Key changes:

- The payment of capital contributions may be deferred for up to **12 months** after incorporation.
- **Bank account setup no longer required** before company registration.

Rationale: Reduces delays caused by AML/KYC procedures and banking requirements.

Protections remain: Any capital above minimum must still be paid upfront; disclosures required for unpaid capital; non-compliant shareholders may temporarily lose voting rights.

Objective: Enhance Luxembourg's competitiveness for companies and fund structures by aligning with European practices.

Modernizing Company Identification

(Bill No. 8680)

Introduces a **central register ("REGINE")** assigning a unique and stable company identifier (INE) across all public administrations.

Goal: Replace fragmented systems, improve data quality, interoperability, and digital public services.

Implementation: **Mandatory for all companies**, no withdrawal option; initial adaptation requires IT and process adjustments, especially in regulated sectors (banking, insurance, asset management).

Impact:

- **Short-term:** increased operational complexity, particularly for small businesses
- **Long-term:** streamlined administration, reduced duplicate reporting, better interaction with authorities

Additional: Extends mandatory RCS registration to sole-proprietor craftsmen, improving access to funding and public support.

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