UPDATE

FEBRUARY 2025

mourant

The main changes applicable to Luxembourg corporate tax residents: what businesses need to know

Update prepared by Eléonore Galleron (Luxembourg)

On 11 December 2024, Luxembourg's Chamber of Deputies voted the Bill 8388 introducing specific measures to adjust the Luxembourg tax system to recent case law and clarify certain provisions. We have provided a summary of the main changes applicable to Luxembourg corporate tax residents below.

Clarification of the tax treatment of redemption of classes of shares

New provisions have been included in article 101 of the Luxembourg Income Tax Law (LITL) in order to clarify the conditions under which the repurchase and cancellation of a class of shares of a Luxembourg company will be qualified as a partial liquidation, i.e., not subject to Luxembourg withholding tax:

- The redemption is carried out for an entire class of shares;
- The share classes were established either at incorporation or during a share capital increase;
- Each share class has distinct and defined economic rights as outlined in the articles of association;
- The redemption of an entire share class is determined based on pre-established criteria specified in the articles of association (or any referenced document), reflecting its fair market value.

The corresponding share capital decrease must occur no later than six months after the repurchase has been performed. The commentary to the Draft Law 8388 clarifies that the general anti-abuse provision would remain applicable if an abuse of law is characterised. This update is welcome as it provides long awaited clarification on the partial liquidation mechanism.

Update of minimum Net Wealth Tax (NWT) for corporations

As from fiscal year 2025, the minimum NWT due by Luxembourg resident companies will be updated as follows:

- €535 if the total balance sheet is lower than or equal to €350,000;
- €1,605 if the total balance sheet is greater than €350,000 and lower than or equal to €2,000,000; or
- €4,815 if the total balance sheet exceeds €2,000,000.

Opt-out option from the Luxembourg participation exemption

As from fiscal year 2025, Luxembourg corporate taxpayers will have the possibility to waive the benefits of Luxembourg participation exemption (exemption of dividend income under article 166 LITL) provided that the exemption would be granted solely based on the acquisition costs (at least €1,200,000). The opt-out will however not be allowed whenever the conditions of the exemption are met based on a shareholding of at least 10 per cent.

An opt-out will also be possible for corporations benefiting from the 50 per cent dividend exemption applicable under article 115.15a LITL.

Digitalisation of tax filing procedures

As from fiscal year 2025, the electronic filing of certain withholding tax returns will be mandatory such as withholding tax returns for director's fees.

Contacts

Eléonore Galleron
Counsel I Avocat à la Cour
Mourant Ozannes (Luxembourg) S.à r.l.
+352 260 082 5035
eleonore.galleron@mourant.com