16 December 2024
BDO Luxembourg Newsletter

2025 MAJOR CORPORATE TAX CHANGES ABOUT TO ENTER INTO FORCE

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INTRODUCTION

Two draft laws, which introduce major tax changes for 2025, have just been passed by the Luxembourg Parliament:

- Draft law 8414 (the tax relief package), which introduces tax cuts for both businesses and individuals to improve Luxembourg competitiveness, boost the Luxembourg economy and strengthen the purchasing power of citizens; and
- Draft law 8388, which introduces targeted measures to adapt the Luxembourg tax system to recent developments and to clarify some of its provisions in order to improve tax certainty for taxpayers.

We present the changes to be introduced, with a focus on the measures applicable to corporate taxpayers. These include mainly a 1% cut of the corporate income tax rate, changes to the minimum net wealth tax rules, clarifications of the tax treatment of share class redemptions and a new possibility to opt-out from the Luxembourg participation exemption regime, under certain conditions.

While we do not detail the changes impacting individual taxpayers (such as the amendments of the employee profit-share regime and of the impatriate regime, the new tax credit for cross-border workers or the adaptation of the personal income tax brackets), we remain at your disposal to discuss them further with you.

Finally, as expected given the numerous measures already taken by the Luxembourg Government by means of the two previously mentioned draft laws, the 2025 budget draft law only introduces few tax changes (including mainly an increase of the maximum amount of CO_2 tax credit and tax measures to revive the housing market). These tax changes are not covered in this newsletter, but information can be provided upon request.

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TAX RELIEF PACKAGE

On 11 December 2024, draft law 8414 was passed by the Luxembourg Parliament. It introduces, amongst others, the following positive tax measures for corporate taxpayers and investment funds: A 1% cut of the corporate income tax ("CIT") rate and a new subscription tax exemption for actively managed exchange traded funds. It further amends some of the provisions of the law governing private wealth management companies (*sociétés de gestion de patrimoine familial*, "SPF").

CIT RATE REDUCED BY 1%

To make the tax framework applicable to Luxembourg fully taxable companies more competitive, with effect as from tax year 2025, the CIT rate will be reduced by 1%. For companies located in Luxembourg-City with taxable income exceeding EUR 200,000, it means that the CIT rate will decrease from 17% to 16%, bringing the aggregate income tax rate of these companies (taking into account the solidarity surcharge for the employment fund and the municipal business tax) from currently 24.94% down to 23.87%.

To find out more on the CIT rate cut, please click here and read our dedicated newsletter: TAX RELIEF PACKAGE PASSED BY THE PARLIAMENT ON 11 DECEMBER 2024 (LINK TO BE ADDED).

NEW SUBSCRIPTION TAX EXEMPTION FOR ACTIVELY MANAGED UCITS ETF

A new subscription tax exemption will be introduced for actively managed undertakings for collective investment in transferable securities exchange traded funds ("UCITS ETFs"), the objective of the measure being to improve the tax framework of Luxembourg investment funds and foster the development and competitiveness of this sector on both the European and international financial scenes. Because the subscription tax is a tax levied on a quarterly basis, the new exemption will apply as from the first quarter following the publication of the law, i.e. most probably as from 1 January 2025, assuming that the law will be published before the end of 2024.
To find out more on the new subscription tax exemption, please click here and read our dedicated newsletter: TAX RELIEF PACKAGE PASSED BY THE PARLIAMENT ON 11 DECEMBER 2024

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TAX RELIEF PACKAGE

AMENDMENTS OF THE SPF REGIME

Several amendments to the law of 11 May 2007 on the creation of the private wealth management company (*société de gestion de patrimoine familial*, “SPF”) will be introduced in order to modernise the regime applicable to SPFs.

The minimum annual subscription tax for SPFs will be increased from EUR 100 to EUR 1,000. In addition, the applicable control procedures will become clearer by introducing the possibility of imposing administrative fines in the event of specifically identified breaches of the aforementioned law of 11 May 2007, while adjusting the procedure currently in force for withdrawing the tax status of SPFs.

Most of these amendments will apply as from the entry into force of the law, with the exception of the provisions dealing with the subscription tax, which will apply as from the first quarter following the publication of the law, i.e. most probably as from 1 January 2025.

To find out more on the amendments of the SPF regime, please click here and read our dedicated newsletter: TAX RELIEF PACKAGE PASSED BY THE PARLIAMENT ON 11 DECEMBER 2024

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TARGETED MEASURES TO ADAPT THE LUXEMBOURG TAX SYSTEM TO RECENT DEVELOPMENTS

On 11 December 2024, draft law 8388 was passed by the Luxembourg Parliament. It introduces targeted measures to adapt the Luxembourg tax system to recent developments and to clarify some of its provisions in order to improve tax certainty for taxpayers. It simplifies the minimum net wealth tax ("NWT") rules, clarifies the tax treatment of share class redemptions and withdrawals and introduces a new possibility for corporate taxpayers to opt-out from the participation exemption regime under certain conditions.

MINIMUM NWT RULES AMENDED

With effect as from tax year 2025, the minimum NWT rules will be amended in order to comply with a ruling of the Luxembourg Constitutional Court which concluded on the non-compliance of the minimum NWT rules with the Luxembourg Constitution.

Based on the new computation rules introduced, the amount of minimum NWT will no longer depend on both the type of assets held and the size of the balance sheet of the Luxembourg company but only on the size of its total balance sheet. Once the change will become effective, the minimum NWT will amount to:

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

To find out more on the minimum NWT amendments, please click here and read our dedicated newsletter: KEY TAX MEASURES PASSED BY THE PARLIAMENT ON 11 DECEMBER 2024 FOR MORE FLEXIBILITY AND TAX CERTAINTY

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TAX TREATMENT OF SHARE CLASS REDEMPTIONS AND WITHDRAWALS CLARIFIED

The conditions to be met for a share class redemption or withdrawal to be treated as a partial liquidation for tax purposes (exempt from Luxembourg withholding tax) have been clarified:

- The redemption or withdrawal has to relate to an entire class of shares;
- The classes of shares redeemed or withdrawn have been implemented upon incorporation or capital increase;
- Each class of shares must have distinct economic rights defined in the articles of association;
- The redemption/withdrawal price can be determined based on criteria defined in the articles of association (or in any other document they refer to) allowing to reflect the fair market value of the shares at the time of the redemption or withdrawal.
- The related share capital decrease has to take place at the latest 6 months following the redemption/withdrawal.

If the class of shares redeemed is held directly by an individual with a significant shareholding, the undertaking has to report information on the individual in its CIT return. The general anti-abuse rule remains applicable in case of an abuse of law.

To find out more on the clarifications introduced, please click here and read our dedicated newsletter: KEY TAX MEASURES PASSED BY THE PARLIAMENT ON 11 DECEMBER 2024 FOR MORE FLEXIBILITY AND TAX CERTAINTY

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NEW POSSIBILITY TO OPT-OUT FROM THE PARTICIPATION EXEMPTION REGIME

As from tax year 2025, Luxembourg corporate taxpayers will have the possibility to opt-out from the participation exemption regime applicable to dividends and capital gains under certain conditions (Article 166 of the Income Tax Law, "ITL", and Grand-Ducal Regulation of 21 December 2001).

However, the opt-out will only be possible if the conditions of the participation exemption are met solely by virtue of the acquisition price of the participation (i.e. if the acquisition price is at least EUR 1.2 million for dividends and liquidation proceeds or EUR 6 million for capital gains). This means that the opt-out will not be possible and the full exemption will apply automatically each time the conditions of the regime are met on the basis of a shareholding of at least 10%.

Also, as from tax year 2025, Luxembourg corporate taxpayers will have the possibility to opt-out from the 50% dividend exemption applicable based on Article 115-15a of the ITL.

To find out more on the new opt-out from the participation exemption regime, please click here and read our dedicated newsletter: KEY TAX MEASURES PASSED BY THE PARLIAMENT ON 11 DECEMBER 2024 FOR MORE FLEXIBILITY AND TAX CERTAINTY

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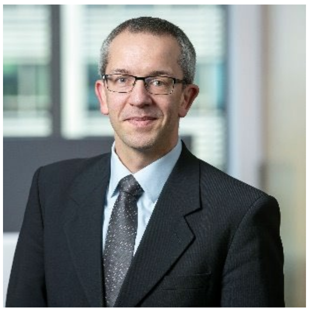

Paul Leyder
Partner
+352 45 123 734
paul.leyder@bdo.lu

Bertrand Droulez
Partner
+352 45 123 591
bertrand.droulez@bdo.lu

Astrid Barnsteiner
Director
+352 45 123 575
astrid.barnsteiner@bdo.lu

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