

Trading and Service Company in Luxembourg

I. Concept

II. Legal structure of a Trading and Service Company

1. Legal form

1.1 Trading Companies in the strictest sense

1.2 Commercial Associations

2. Formation

III. Tax structure of a Trading and Service Company

1. Corporate taxation

1.1 Corporate income tax

1.2 Municipal business tax

1.3 Withholding tax

2. Net wealth tax

3. Value-added tax (VAT)

IV. Advantages of the formation of a Trading and Service Company in Luxembourg

1. Pro-business assessment framework

2. Further advantages

Trading and Service Company in Luxembourg

This publication is for information purposes only and should not be treated as a substitute for a tax or legal consultation or for the reading of Luxembourg's legislation or Circular Letters in relation to the Trading and Service Company. The reader should not act on the basis of the information contained in this publication without having obtained individual, expert advice from a person with expertise in this area. In particular, individual advice from tax consultants or lawyers should be sought with regard to all aspects of the tax treatment of foreign investments. LCG International AG accepts no liability or responsibility for any damage or loss which results from the reader's decisions made on the basis of the information contained in this publication.

The following text is an extract from LCG's brochure "Business Luxembourg Company Formation".

September 2013

Your LCG Team

Trading and Service Company in Luxembourg

I. Concept

A Trading and Service Company in Luxembourg has its registered office in Luxembourg and carries on skilled trade, industrial or other commercial activities.

II. Legal structure of a Trading and Service Company

1. Legal form

Luxembourg's Trading Companies Act of August 10th, 1915, differentiates between Trading Companies, in the strictest sense, and Commercial Associations.

1.1 Trading Companies in the strictest sense

Trading Companies in the strictest sense possess legal personality and include the following legal forms in Luxembourg: the Public Limited Company (PLC., Corp./SA), Limited Liability Company (LLC., Ltd./SARL); Partnership Limited by Shares (SCA); Limited Partnership (LP.); General Partnership (SENC); Co-operative Societies (SC) as well as the European Company (SE).

Notwithstanding this, it is usually only the Public Limited Company (PLC., Corp./SA) and the Limited Liability Company (LLC., Ltd./SARL) which are of interest for the formation of a Trading and Service Company in Luxembourg.

1.2 Commercial Associations

In contrast, Commercial Associations do not possess legal personality and are subdivided into Temporary Commercial Associations and Commercial Associations by Participation.

2. Formation

The particular requirements for the formation of a Trading and Service Company in Luxembourg are determined by the particular legal form chosen.

A Trading Company in Luxembourg may be formed by any foreign person (including persons from outwith the European Union (EU)) and managed by such persons as the director.

Notwithstanding this, the carrying on of any industrial and skilled trade activities requires prior written consent (a trade licence, autorisation d'établissement) from Luxembourg's Ministry of Small and Medium-sized Businesses, Tourism and Housing. In addition, trade registration is required as is the application for a value-added tax (VAT) identification number from the relevant tax authority.

The said consent (a trade licence) shall be issued when all legal requirements and qualifications have been satisfied by one of the managing directors or the manager as well as such a person having the requisite professional experience for the relevant activity. Moreover, it is required that the business operations of the company include having a physical permanent establishment in Luxembourg. This may, for example, be in the form of an office or the company's registered office.

Foreign companies which do not have their registered office in Luxembourg and which dispatch one or more than one employee to Luxembourg to carry out activities are required to appoint a Mandataire (legal representative).

III. Tax structure of a Trading and Service Company

The following information relates exclusively to the taxation of corporations in Luxembourg due to Trading and Service Companies being formed particularly in the form of a Public Limited Company (PLC., Corp./SA) or the Limited Liability Company (LLC., Ltd./SARL) in practice in Luxembourg:

1. Corporate taxation

From January 1st, 2013, corporations in Luxembourg have been taxed annually at a rate of 29.22%. The said corporate taxation comprises the following:

1.1 Corporate income tax

In Luxembourg, the rate of corporate income tax on income exceeding 15,000 EUR is 21% (or at a rate of 20% on income of up to 15,000 EUR) and is increased by the solidarity surtax of 7%.

The minimum payment of corporate income tax for all corporations resident in Luxembourg which do not require a trade licence and the sum of their assets, securities and bank balance together exceed 90% of their balance sheet total is 3,210 EUR (3,000 EUR plus the 7% solidarity surtax).

1.2 Municipal business tax

All businesses resident in Luxembourg (e.g. trading-, industrial-, mining- or craft businesses) as well as the permanent establishments of foreign companies are subject to municipal business tax at a rate of 6.75%.

1.3 Withholding tax

Dividend distributions in Luxembourg are liable to withholding tax at a rate of 15%. Royalty and interest payments as well as proceeds from liquidation or partial liquidation are not liable to withholding tax in Luxembourg.

2. Net wealth tax

Corporations in Luxembourg which have their registered office or place of central management and control in Luxembourg must pay net wealth tax on their total assets, namely assets in and outwith Luxembourg. However, for corporations not resident in Luxembourg, only assets in Luxembourg will be liable to the said tax. The annual rate of net wealth tax on taxable assets is 0.5%.

3. Value-added tax (VAT)

In Luxembourg, the rate of value-added tax (VAT) is 15%. Certain deliveries and services are liable to the reduced rate. This includes, for example, a rate of 3% on e-book transactions.

IV. Advantages of the formation of a Trading and Service Company in Luxembourg

1. Pro-business assessment framework

In addition to Luxembourg's tax administration being convenient and business-friendly, Luxembourg is particularly attractive due to its flexible administration of the assessment framework. Information regarding the scope of tax liability and undertakings relating to taxation (so-called tax rulings) can be sought from Luxembourg's tax authority prior to the tax being due. In principle, these can be relied upon by both sides. In Luxembourg, such tax ruling procedures can be completed within weeks.

2. Further advantages

There is very little red tape surrounding the formation and management of a Trading and Service Company in Luxembourg.

Moreover, Luxembourg is a signatory to double taxation agreements (DTA's) with many countries which prevent the double taxation of income from transactions which has already been taxed. It is possible to set off withholding tax paid abroad insofar as no setting off excess arises therefrom.

LCG International AG

You may contact the author via:

Tel.: 00352 250 345

office@lcg-international.net
