

Corporate structures in Luxembourg



Avocats à la Cour
Rechtsanwälte
Solicitors & Barristers



Presentation by
Joram Moyal

Avocat à la Cour, Rechtsanwalt & Solicitor

Luxembourg

Luxembourg in the European Market

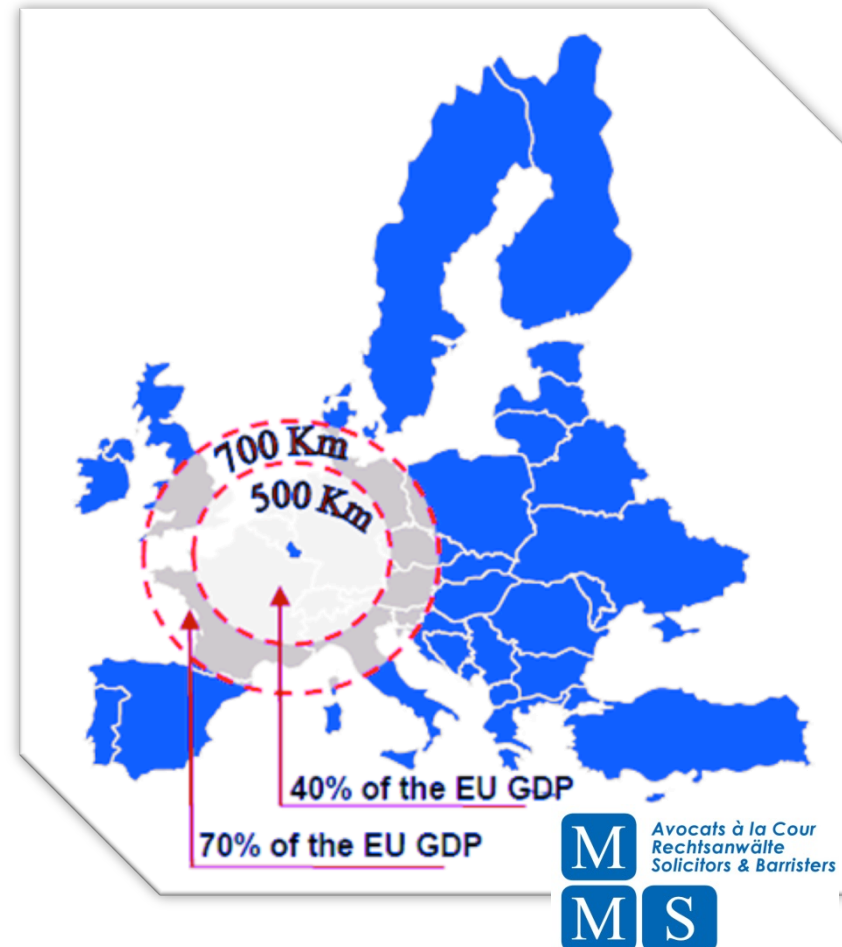
A 500 Million + Customer Base

Arguments in favour:

- Direct access to major European markets
- Trans-national approach

A friendly business environment

- Business-orientated government
- VAT
- Intellectual Property related tax advantages
- Multilingual workforce



Structures in Luxembourg

Is it relevant where your global headquarters are based?

The objective: maximize operational and financial efficiency in an optimal structure that enables superior responsiveness to corporate needs.

Who is based in Luxembourg and why did they come?



Structures in Luxembourg



How many Banks are there in Luxembourg?

How many Investment Funds?

Anyone else?

Supervision of the financial sector - CSSF?

More than 35,000 companies from all over the world have been formed in Luxembourg by investors

Most used company forms

Société Anonyme (S.A.)	Soicété à responsabilité limitée (S.à r.l.)	Société à commandite simple (SCS)
31000 € fully subscribed but possibility to pay only ¼ (release)	12500 € fully subscribed and paid (released)	No miminum capital
Represented by shares (registered or bearer shares) Min. 1 No maximum shareholders	Min. one, maximum of 40 Shareholders.	General partner and limited partner General partner being personally responsible
Board of directors (min. 3) and one chairman General meeting once a year at least	Director (gérant technique) No need of a general meeting if the number of shareholders ≤ 25	Managed by Limited Partner
independent auditor	No need of an independent auditor if the number of shareholders is less than 25	No need for independent auditor
Free name	Free name	Free name

Taxation in Luxembourg

The legal and tax environment is certainly one of the most important reasons why Luxembourg is attractive to companies looking for a location for their headquarters

Tax Rates

- Luxembourg has favourable tax treaty agreements with 57 countries including Israel.
- It has a very competitive company taxation rate of 29.22% (corporate tax of 21.00% + unemployment surcharge 0,7% + municipal business tax 6.75% + wealth tax of 0.5% of net assets).
- However, most investment vehicles are either **exempt** from such taxes or the **tax base is reduced to zero by certain exemptions**
- There are **no withholding taxes** on dividends, paid to EU or double tax treaty resident companies including Israel,
- no withholding taxes on interest and royalties.



IP Tax Regime

As from 1st of January 2008, Luxembourg introduced a favorable tax regime for income derived from certain Intellectual Property rights (hereinafter referred as “IP rights”)

Benefit from an allowance of 80% on the net income derived from intellectual property, reducing the tax rate to **5.72 %**.

The allowance covers income derived from the use or the right to use

- Copyright on software
- Patent
- Trade mark, design or model
- Domain name



The 80% deduction is furthermore applicable to capital gain realized on the sale of such IP right.

IP Tax Regime

Qualifying IP rights

- Patents
- Trademarks/service marks
- Designs/models
- Internet domain names
- Software copyrights relating to standard software.

Conditions

The following conditions must be simultaneously met:

- The IP right must have been acquired or developed after 31 December 2007.
- The IP right may not have been acquired from specified “directly” related companies.
- Expenses, amortizations, and write-downs economically related to the IP must be activated.

Qualifying IP income

- Royalty payments
- Damages
- Capital gains.

Importantly, the law provides for an 80% deemed income deduction for self-developed patents that are used by the taxpayer himself.

Tax treatment

Corporate income tax/ municipal business tax:

- 80% tax exemption on qualifying net income
- Effective tax rate: **5,72%.**

Net wealth tax:

- 100% tax exemption on qualifying IP rights.

The typical Investment Structures

- SPF (Private Portfolio Management Company)
- SOPARFI (Investment Holding Company)
 - ROYCO (Royalty Company)
 - FINCO (Financing Company)
 - PROPCO (Company owning Real Estate)
- BRANCH (Branch of Non-Resident Company)
- SHIPCO (Shipping Company)
- SIF (Specialised Investment Fund)
- SICAR (Investment Company in Risk Capital)
- SV (Securitisation Vehicle)



SPF (PRIVATE PORTFOLIO MANAGEMENT COMPANY)



- A tax free company to hold and manage personal private portfolio of investments and cash.
- The investors in a SPF should be: (i) individuals acting within the scope of the management of their own private wealth, (ii) an asset management vehicle acting exclusively for the benefit of the private wealth of one or more individuals or (iii) an intermediary entity acting on behalf of such individuals/vehicles
- An SPF is exempt from company and wealth taxes
 - if less than 5% of its dividend income, capital gains, interest and royalty income is received from companies
 - subject to company tax of greater than 10.5%
 - not protected by double tax treaties.
- An SPF pays a subscription tax of 0.25% per annum on its net assets with a maximum of EUR 125,000 per year.
- No withholding taxes are imposed on dividends, interest and royalties distributed to shareholders.

- A SOPARFI is a fully taxable parent company whose primary activity is to hold participations in any other company in the world.
- Qualifying shareholdings and related debt are excluded from wealth tax
- Dividends and capital gains received by a SOPARFI are tax exempt if received from companies that fall under the participation exemption
- Royalty income and interest income can be subject to special tax treatment (IP Tax Regime)

- A ROYCO owns, patents, designs, models, domain names or software copyright
- Will licence the usage rights to any other company in return for royalties.
- 80% of the royalties received and capital gains made from the sale of IP are tax exempt resulting in an effective tax rate of 5.72%.
- Use of certain financial instruments and an advance agreement may reduce the effective tax rate further.

- A Luxembourg FINCO borrows money from its parent company and provides a loan to its subsidiary company.
- Interest margins from 0.25% to 0.125% can be agreed.
- Net / debt equity ratio of 80%/20%
- Specific hybrid instruments such as a profit participating loan (PPL) or preferred equity certificates (PECS) together with an advance agreement can be used to reduce the effective tax rate.

- A PROPCO owns property located outside Luxembourg or owns subsidiaries that own real estate
- Foreign property and related debt are excluded from wealth tax
- rental profits and capital gains on the sale of property are not subject to taxation in Luxembourg if the property is located outside Luxembourg.
- Capital gains on the sale of shares in and dividends received from a property owning subsidiaries are tax exempt.

BRANCH (BRANCH OF NON-RESIDENT COMPANY)

- A BRANCH is not a corporate entity separate from its parent company, but can carry out all types of activity.
- Dividends and capital gains received are tax exempt, if received from companies that fall under the participation exemption.
- Also, qualifying shareholdings and related debt are excluded from wealth tax.
- Royalty and interest income can be subject to special tax treatment.

SHIPCO (SHIPPING COMPANY)

- A SHIPCO buys and sells, charters in and out or manages yachts and ships.
- No municipal taxes are due (reducing tax to 25%)
- Large tax losses which can be carried forward indefinitely and investment tax credits of 14% of the cost of the vessel can be carried forward for 10 years.
- Capital gains generated by shipping companies on the disposal of a vessel held for at least 5 years may benefit from an unlimited tax deferral
- Provisions for large scale repairs can reduce company taxation and reduce wealth tax.
- Supplies of goods and services to transport, industrial and commercial seagoing vessels are exempt from VAT.

- An originator sells and transfers the risk of any type of asset to an SV.
- The SV issues shares and/or bonds to **qualified investors** by private placement or public offering and the cash flows generated by the assets serve to pay the investors.
- There is no risk diversification requirement
- All payments made by the company to the shareholders such as dividends and interest are deductible from the tax base.
- A one time capital duty of € 1,250 is payable.
- Management services rendered to an SV are exempt from VAT

SIF (SPECIALISED INVESTMENT FUND)

- The Specialised Investment Fund (SIF) is a regulated, operationally flexible and fiscally efficient multipurpose investment fund regime for an international, institutional and qualified investor base.
- In comparison with institutional funds the SIF has greater flexibility with regard to the investment policy, broadening of the sphere of investors and a more relaxed regulatory regime.
- Investment in a SIF is reserved for “well-informed” investors requiring a limited level of protection and looking for investment flexibility suitable to their particular expertise and needs (minimum investment of 125.000 € per investor)
- There is no restriction in terms of eligible assets of a SIF.

SIF (SPECIALISED INVESTMENT FUND)

- The net assets of a SIF may not be less than 1,250,000 Euros. This minimum must be reached within a period of twelve months following its authorisation. Only 5% of the capital needs to be paid up on subscription.
- The SIF may be incorporated as an S.A., S.à r.l. or SCS
- The SIF pays an annual subscription tax (taxe d'abonnement) of **0.01% of its net asset value**
- Investments on certain money market and pension funds or SIFs investing in other funds which are already subject to subscription tax are exempt from subscription tax. The same applies to microfinance investment funds.

Company Tax	Wealth taxes	NOT Protected by double tax treaties and EU Directives
0.0%	0.0%	

SICAR (INVESTMENT COMPANY IN RISK CAPITAL)

- A SICAR may invest in all types of private equity or venture capital investments which are considered risky. This is defined as “a direct or indirect contribution of fund for start-ups, further development or listing on a stock exchange”. No risk diversification is required.
- All dividends, interest and capital gains deriving from transferable securities and cash held for investment are exempt from tax.
- A one-time capital duty of € 1,250 is payable. Management services rendered to a SICAR are exempt from VAT.

Thank you for your attention

Joram Moyal
MMS Avocats
14a, rue des Bains
L-1212 Luxembourg
j.moyal@mms-legal.com
Tel: +352 26 20 30 06



*Avocats à la Cour
Rechtsanwälte
Solicitors & Barristers*



Luxembourg