

# Total Tax Contribution Luxembourg

*A standardised  
methodology and a  
common language to  
measure and communicate  
your company's overall tax  
contributions*





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## Foreword

*PwC and its sponsors, “Confédération Luxembourgeoise de Commerce” (CLC) and the “Business Federation Luxembourg” (Fedil), are delighted to present you the first micro-economic study measuring the effective tax amount that companies pay in Luxembourg.*

*Total Tax Contribution is a PwC study initiated by PwC UK and carried out in many other developed economies across the globe. It aims at providing companies, policy makers and other stake holders valuable insights into how much companies contribute to the business community.*

*This pilot study will be repeated for the year 2010 and will be based on a broader sample of participants.*

*We would like to thank all the companies which participated in this report. We hope the information will be useful to frame future tax policy discussions.*

**Wim Piot**  
Tax leader, PwC

**Michel Rodenbourg**  
President, CLC

**Robert Dennewald**  
President, Fedil

# Executive summary

Total Tax Contribution (“TTC”) is the first study that we have carried out in Luxembourg.

For the companies, TTC aims at:

- assessing their effective tax burden;
- benchmarking their results to the other participants, and;
- identifying weakness/strengths in their tax strategy.

For policy makers and other stakeholders, the study may:

- help understand the weight of all taxes paid by a sample of Luxembourg companies;
- be a policy instrument to benchmark the country’s tax policy vis-à-vis other countries;
- design new fiscal resources, and;
- abandon other taxes for which the cost (compliance cost for companies and collection cost for the Treasury)/benefit (tax revenue) analysis is potentially negative.

## **Taxes, public revenue and impact on business**

- The total taxes paid by the study participants in 2008 represents 4.1% of the Luxembourg total tax revenue.
- In Luxembourg, a company is subject to 31 taxes in total, made up of 18 taxes borne and 13 taxes collected. Based on our results, on average, a company pays 5.5 taxes borne and 3.8 taxes collected.
- In total, 56 participants have replied to the survey. According to their activities, they have been divided into five sectors:
  - industrial;
  - financial;
  - technology;
  - media & entertainment, and;
  - others.
- The main sectors represented are the financial sector (33%), mainly composed of asset managers, and the industrial sector (31%).
- Due to the beginning of the financial crisis, five survey participants out of fifty-six have paid 67% of the total taxes paid (i.e. borne and collected).
- Taxes borne by survey participants amounted to € 127 M in 2008. According to our 5Ps distinction, the main taxes borne are People taxes (40%) and Profit taxes (38%). Our results of the taxes borne by type of tax indicate that social security (employer’s share) and Corporate Income Tax (“CIT”) are the main contributions with respectively 39% and 25%.
- Taxes collected by survey participants amounted to € 441 M in 2008. According to our 5Ps distinction, the main taxes collected are People taxes (61%) and Product taxes (36%). Our results of the taxes collected by type of tax indicate that wage tax (36%) and VAT (33%) are the main collected contributions.

- VAT, as a tax collected, is one of the most important sources of revenue of the Luxembourg State (i.e. 16% of the total Luxembourg tax receipts).
- On average, 26% of the total taxes contributed (i.e. taxes borne and collected) by a participant are linked to the payment of VAT.
- In 2008, VAT paid by the participants (i.e., € 87 M) represents 4% of the Luxembourg VAT revenue (i.e., € 2,299 M).
- The average of the total amount of taxes borne and collected by companies as percentage of turnover is 11.47% for Luxembourg. As a matter of fact, some companies are in a loss position due to the financial crisis.
- The average Total Tax Rate (“TTR”), used to measure the effective tax burden of a company, is 34.1% for Luxembourg.

### **International comparison**

- The TTC survey has been carried out in a number of other countries around the world based on the same methodology. Therefore, our results were compared to Canada, South Africa, the Netherlands, Belgium, India, Australia, UK, the US and Switzerland.
- Compared to these OECD countries,
  - Luxembourg, with an aggregate statutory rate of 29.63% for 2008, stood in the middle of the range and slightly above the OECD average for corporate income tax. Luxembourg had a similar position in 2010.
  - the total tax revenue for Luxembourg in 2008 was € 13,958 M which corresponds to 35.5% of its Gross Domestic Product (“GPD”). This rate ranks in the middle and slightly above the average of the OECD countries.
- Luxembourg has the lowest average number of taxes borne and the second lowest average number of taxes collected.
- Luxembourg has the lowest CIT share as percentage of taxes borne (i.e. 25%).
- TTC to turnover of 11.47%, Luxembourg has the third lowest rate when compared to other countries.
- The Luxembourg TTR for 2008 (i.e. 34.1%) was approximately in the middle of the TTR's ranking.

### **Conclusions**

This TTC study shows that Luxembourg companies carry an average tax charge (i.e., 34.1% on profit before taxes) in an OECD context. Other studies such as an OECD study and PwC tax freedom day study corroborate this conclusion. By and large, Luxembourg has a low proportion of property taxes and planet taxes and a high proportion of people taxes. It is abundantly clear that Luxembourg is not a tax haven as sometimes reported in the international press or by foreign politicians.

# Introduction

## **TTC framework**

PwC global network has developed a wide range of data collection tools to assess the tax burden of companies, either globally or within specific sectors. To this purpose, PwC has been taking part in an increasing number of worldwide studies and research on tax issues. PwC Luxembourg has been particularly committed to providing a platform for government institutions and business players to engage constructive discussions on the tax system and potential reforms. On top of TTC, PwC Luxembourg has been participating to the Tax Freedom Day and Paying Taxes which are published every year.

**The Tax Freedom Day** (“TFD”) study adopts a macro-economic way to show the level of taxation for individuals. It computes the date when an individual from a given country starts to earn money for him/herself. It is calculated by dividing the total tax revenue of the government of the country by that country’s GDP.

In other words, TFD is a measure of the overall tax burden borne by the citizens of a given country in a particular year. All taxes, direct and indirect, which are levied by any level of government, are taken into account.

Based on the estimation performed by PwC Luxembourg, the TFD for Luxembourg was on 16 May 2010. The underlying tax rate, as a percentage of GDP for Luxembourg is approximately 36.7% in 2010. Among the countries having participated to the survey, Luxembourg stands at the 4<sup>th</sup> place. Before Luxembourg, the USA have their TFD on 9 April 2010, Slovakia’s is on 20 April 2010, and Spain’s is on 1 May 2010. After Luxembourg, the Netherlands’ TFD is on 19 May 2010 and Belgium’s on 8 June 2010. The last country is Sweden with a TFD on 12 July 2010<sup>1</sup>.

**Paying Taxes** is another project adopting a micro-economic approach conducted by PwC together with the World Bank. The specificity of Paying Taxes is that all comments and computations are based on one case-study company in a given economic situation. Indeed, the case-study company is a small to medium-sized manufacturer and retailer, deliberately chosen to make sure that its business can be identified with and compared worldwide. The indicator covers the cost of taxes borne by the case-study company and the administrative burden of tax compliance for the firm.

According to the 2011 study, which has been recently published, Luxembourg has an average TTR<sup>2</sup> of 21.1%. This quite low percentage is explained by the availability of important tax credits for investment in Luxembourg, which offset the corporate income tax liability of the company. These tax credits should, however, not be understood as standard tax benefits applicable to all Luxembourg companies in an ongoing concern situation. Indeed, although the tax credits are non discriminatory in terms of sectors, industries, company size, ... its effects will only reduce the taxable base if the company is in an investing phase (e.g. at set up). This case study ranks Luxembourg at the first position in terms of TTR but this result should be of course mitigated as explained above. Luxembourg is closely followed by Cyprus with 23.2% and Ireland with 26.5%. Belgium is part of the countries at the bottom of the ranking with a TTR of 57% followed by France with 65.8% and Italy with 68.6%<sup>3</sup>.

Finally, PwC Luxembourg decided to launch the TTC Survey to give a broader picture of the Luxembourg micro-economic tax environment based on data given by existing Luxembourg companies. The results of this survey are detailed below.

1 Tax Freedom Day 2010, p.5 by PwC - Katholieke Universiteit Leuven.

2 The Total Tax Rate compares the total of taxes borne with the pre-tax profit.  
3 Paying Taxes 2011, the global picture, p.31 by the World Bank and PwC.

## *The TTC methodology provides a standardised approach to identify a company's overall tax contribution.*

### **TTC concept**

The TTC methodology provides a standardised approach to identify a company's overall tax contribution. The TTC approach can be used on a country-by-country basis and/or on a global basis.

On the micro-economic side, taking part into such a survey allows companies to assess and benchmark their tax strategy and identify potential areas for improvement. On the macro-economic side, it helps measuring how important contributors are Luxembourg companies and what are their needs to develop further activities in Luxembourg.

The TTC survey applies to companies regardless of their size or sector of activities.

The TTC survey is based on the total number of taxes paid by a company. It includes the taxes borne and collected of a company (see the definitions further below). In this respect, even though the different Luxembourg cities collect local taxes such as Municipal Business Tax ("MBT"), it is true to define the Luxembourg tax administration system as based on a central collection model.

### **The TTC study is based on the following principles:**

- Definition of the term "tax": what is regarded as tax under the TTC framework?
- Difference between taxes borne and collected: some taxes are borne by the company itself, as a taxable person, and recorded in the income statement (taxes borne) and some taxes are collected by the company from third parties on behalf of the state and passed on to it (taxes collected).
- Categories of taxes (irrespective taxes borne or collected): the so-called "5Ps".
- Determination of the TTR.

### **What is regarded as "tax" under the TTC concept?**

The definition of "tax" used in the TTC methodology is based on the OECD definition<sup>4</sup>. A payment is qualified as "tax" if the following conditions are met:

- the payments are performed to a centralised administration;
- the payments are mandatory;
- there are no attributable services to a specific payment, and;
- the payments are related to various areas, not only CIT.

If all conditions are met, it is a tax according to the TTC definition.

### **Taxes borne vs. Taxes collected**

TTC makes a distinction between taxes borne and taxes collected as follows:

- **Taxes borne** are taxes which a company itself bears as a taxable person and which impact the results. Taxes borne are charged to the company's profit and loss account and will ultimately be passed on to customers, employees or shareholders. They include, in addition to income taxes, all other taxes that have to be borne by a company, such as capital taxes, irrecoverable value-added tax, employer's part of social security contributions, real-estate tax, property transfer tax and numerous others. A detailed list of taxes borne is included in Appendix 1.
- **Taxes collected** are defined as payments, which a company collects from third parties on behalf of the state and remits to the state. Taxes collected do not represent financial costs for the company (other than the collection cost itself) and do not affect the company's results. They are pure transit items and are only affecting the balance sheet of the company. However, the company bears the related administrative process and costs. Taxes collected include inter alia employees' part of social security contributions, withholding taxes, value-added taxes, and tax at source for salaries. A detailed list is included in Appendix 1.

For some companies, there are some taxes that may be both a tax borne and a tax collected. For example, the employer's share of social security contributions is for the company a tax borne, while the social security contribution employees' share is a tax collected.

<sup>4</sup> OECD – Glossary of statistical terms for "taxes"  
Website: <http://stats.oecd.org/glossary/detail.asp?ID=2657>

### The five “Ps”

According to TTC, the taxes borne and collected are also divided into the following subcategories:

- **“Profit”**: all taxes based on the amount of profit (e.g. CIT, MBT, withholding tax on profit, ...).
- **“Property”**: all taxes levied on the ownership of property/assets and the transfer of the ownership of property/assets (e.g. capital duty<sup>5</sup>, net wealth tax, real estate tax, transfer of property tax, ...).
- **“People”**: all taxes and contributions relating to employees (e.g. withholding tax on wages, social security contributions, ...).
- **“Product”**: all types of taxes levied on production, sales and use of goods and services and taxes levied in connection with such exchange of services (e.g. VAT, Insurance Premium Tax, ...).
- **“Planet”**: all taxes which are in any way associated with environmental matters (e.g. garbage tax, tax on large vehicle, ...).

A detailed classification overview can be found in Appendix 1.

### TTR - Model calculation

A TTC framework includes the computation of a TTR. The TTR measures the company’s total effective tax burden. This key figure compares the total of taxes borne with the pre-tax profit (i.e. before deducting taxes borne). The figure below illustrates the calculation of a TTR.

**Chart 1: TTR – example of calculation:**

Profit before taxes and contributions borne	a	130
Other taxes and contributions borne	b	(30)
Profit before taxes	c=a-b	100
Corporate income taxes <sup>6</sup>	d	(30)
Profit after corporate taxes	e=c-d	70
Total of taxes borne	f=d+b	60
TTR <sup>7</sup>	g=f/a	46%



<sup>5</sup> Capital duty was due by companies in 2008 but has been abolished on 1st January 2009.

<sup>6</sup> Corporate Income Tax and Municipal Business Tax.

<sup>7</sup> Percentage used for illustrative purposes only.

***This study intends to understand how the Luxembourg tax system influences Luxembourg corporations and to assess the contribution of these corporations in the Luxembourg tax revenue.***

### ***TTC: scope, methodology and limitations***

#### **TTC in different steps**

PwC Luxembourg conducted the first TTC survey in collaboration with Fedil and CLC, which are both Luxembourg trade associations. Both Fedil and CLC have helped contact potential participants. No other material or financial support was provided by CLC and Fedil. The processing of data and the drafting of the report are done by PwC and are not influenced by Fedil and CLC. As a result, no conclusions could be attributed to these organisations.

This study intends to understand how the Luxembourg tax system influences Luxembourg corporations and to assess the contribution of these corporations in the Luxembourg tax revenue.

The first Luxembourg TTC survey covers the tax payments of companies made for fiscal year 2008.

The list of potential participants has been established with no specific restriction in terms of size or sector of activities. All the participants are affiliated to Fedil or CLC. PwC Luxembourg does not disclose the identity of the participants to the TTC survey. We disregarded results when they were too significant or too trifling and which could have led to the identification of participants.

This TTC study shows the tax burden of Luxembourg companies at the beginning of the economic downturn. Since this is the first study of this kind, no trend analysis could be done. However, we expect to launch a 2010 survey which will collect the data for 2010 allowing trend analysis in the future.

#### **Key figures**

- Fedil, CLC and PwC invited 170 Luxembourg companies to take part in the first TTC study in Luxembourg;
- 56 corporations responded, which represents a participation rate of 33%;
- The participants were from various sectors such as industrial sector, financial sector (mainly asset managers), technology, ... (a more detailed list of sectors is available in Appendix 2);
- In total, the participants of the study employed about 13,153 persons in 2008;
- In total, the participants had a turnover of € 8.4 billion in 2008;
- In total, the participants paid a total wages and salaries of € 532 M to their employees for the year 2008.

#### **Luxembourg tax environment**

Luxembourg turns out to be a gateway to the European market. Due to its political stability, skilled and multilingual workforce and favourable tax climate, Luxembourg offers a wide range of assets and opportunities for doing business.

#### ***A political and economical environment tuned to business***

Luxembourg is a country with a great political stability. Indeed, Luxembourg turns out to be one of the most secure places in Europe for business thanks to the consistency in the political orientations of the government over the past decades.

Moreover, the country's central geographical location and the connection between the different European investments of a company have made the country a thriving business location.

Additionally, the multilingual workforce from Luxembourg and from its neighbouring countries (i.e. France, Belgium and Germany) provides a very good reputation in terms of educational background, competencies and social diversity.

Finally, on top of being a financial hub, Luxembourg has developed a wide range of services to investors seeking expertise and quality in Europe.

### *A favourable business climate*

In many surveys conducted by PwC in Luxembourg<sup>8</sup>, favourable tax and regulatory climate stands out when it comes to choose a good place for investment.

Luxembourg provides the companies with a wide range of effective tools, which is an essential feature of its development.

- **Corporate tax rate and incentives**

In 2009, the combined corporate income tax rate in Luxembourg City was 28.59%. In 2011, the rate has slightly increased up to 28.80%. Luxembourg provides companies which have set up business in the country with a wide range of non double taxation treaties. A new attractive tax regime for Intellectual Property (IP): IP has always been a company's most valuable asset. Thus investments made by companies in terms of invention, creative work and R&D activities should be protected and supported. Aware of the important role that intellectual property plays in innovation, the new Luxembourg tax regime (adopted in December 2007) provides an 80% exemption for net income deriving from certain IP rights and capital gains made on the sale of IP. Its legal system and infrastructure make Luxembourg an ideal location for the exploitation and protection of IP. The partial exemption applies to income paid to Luxembourg taxpayers for the use and the right to use software copyright, patent, trademark, design, model or domain name under certain conditions. All revenues from IP also benefit from the net wealth tax exemption.

- **Investment tax credit**

The global investment tax credit provides a credit of 6% (as from 1<sup>st</sup> January 2011, the rate has changed to 7%) to the acquisition value of investments made during the year, subject to a ceiling of € 150,000 and of 2% (as from 1<sup>st</sup> January 2011, the rate has changed to 3%) on the balance. The complementary investment tax credit provides a credit of 12% (as from 1<sup>st</sup> January 2011, the rate has changed to 13%) to the complementary acquisition value of the investments made during the tax year. These tax credits are not discriminatory in terms of sectors, industries or company size.

New business tax credit: 25% exemption (or 50% until 2013) on both corporate income tax and municipal business tax for up to eight or ten years on profits arising from the implementation of new businesses, manufacturing processes and new high technology services in line with the rules.

More generally, various types of incentives are available, notably, for developing R&D and innovation.

- **Indirect tax rate**

VAT: since the institution of VAT in the European Union (EU), Luxembourg has always applied the lowest rates in the EU. The different rates applicable in Luxembourg are: 3%, 6%, 12% and 15%, depending on the goods or services purchased.

No VAT pre-financing on imports: most EU countries ask for payment of the VAT due on imports. In Luxembourg, no cash payment of the VAT on imports occurs because the VAT due only needs to be reported in the VAT return. This procedure applies automatically and unconditionally, whereas application of the same procedure in some other EU countries may be subject to preliminary authorisations and/or guarantees. Therefore, no cost is linked to the pre-financing of import VAT in Luxembourg, with a minimum administrative burden.

- **Personal tax**

The personal tax regime is constantly adapted to the benefit households and people involved in Luxembourg daily life. As such, there are allowances, deductions and exemptions in the Luxembourg income tax regime, deductions for employment-related expenses, deductions for interest payments, deductions related to share purchase, exemptions for pay earned by working unsocial hours, part exemptions on dividend income, etc. The marginal personal tax rate stands at 40.56% for fiscal year 2011 (excluding crisis tax of 0.8%).

<sup>8</sup> For more information, please contact PwC Luxembourg.

*Even though the Luxembourg government fully supported the idea of more regulations and transparency in the financial sector as requested by the G20 and implemented some important decisions in this respect, it maintained its favourable tax and regulatory climate and therefore did not increase corporate tax to support the employment and economic development.*

- **Attractiveness of Luxembourg for financial activities**

Luxembourg turns out to be a reliable business partner as its financial products meet the expectations of both the supply and demand sides. The long term expertise of mainstream products has made Luxembourg the fund domicile of choice for international asset managers.

The country did not only develop the traditional financial segment, but also positioned itself as a leading centre for alternative products: investment vehicles such as SICAR (for private equity) or the Specialised Investment Funds (SIF) for alternative asset classes contribute to enlarge the scope of eligible assets and to the improvement of the flexibility of investment for institutional and qualified investors. Luxembourg also offers the opportunity to set up various types of life insurance products giving access to a large scope of eligible assets.

This description is not exhaustive and other tax and regulatory advantages are provided by the Luxembourg law and practice.

*Luxembourg facing the economic crisis*

While a lot of countries' tax revenues were decreasing due to the effect of the recent economic downturn, some of them decided to adopt political measures to cut their public costs and increase taxation on individuals and corporations. In other words, their answer to the crisis was political austerity.

In order to make sure economic recovery and sustain future growth will come, most western countries, including Luxembourg, have financed stimulus plans. Although it was necessary to fight against the short-time consumption downturn, these plans will have a major impact on public finance. This will be the case in most European countries as well as the USA, where government's deficits and public debt are expected to increase substantially.

National economies have to shore up their public finances, i.e. reducing public debt and deficits to maintain long-term competitiveness. In this respect, countries from euro zone must comply with the Stability and Growth Pact, requiring a general government debt of less than 60% of GDP and a general government balance sheet that does not exceed 3% of the GDP. After assessing national stimulus plans and public finances, the European Commission forecasts that over the next few years, government debt from most European countries is going to breach the EU Stability and Growth Pact criteria.

However, Luxembourg public finances are still healthy and constitute the best guarantee of stability for its overall policy.

*An increasingly regulated environment*

Some restrictions were decided for businesses in some countries and a call for more regulation of the financial sector was made during the G20 in April 2009.

Following the G20 recommendations, Luxembourg has undertaken two main steps.

- The Association of the Luxembourg Fund Industry (ALFI) has set a Code of Conduct which provides investors with principles and recommendations for the governance of Luxembourg investment funds.
- In July 2009, Luxembourg has increased the number of double taxation conventions on exchange of information in order to be removed from the "grey list" established by the OECD in conjunction with the G20. Luxembourg is now part of the "Jurisdictions that have substantially implemented the internationally agreed standard"<sup>9</sup>.

Even though the Luxembourg government fully supported the idea of more regulations and transparency in the financial sector as requested by the G20 and implemented some important decisions in this respect, it maintained its favourable tax and regulatory climate and therefore did not increase corporate tax to support the employment and economic development.

<sup>9</sup> Progress report, OECD, January 2011. Also available on the OECD website: <http://www.oecd.org/dataoecd/50/0/43606256.pdf>

# The survey results

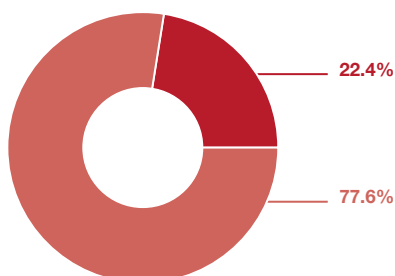
## Participants' total contribution to Luxembourg tax revenue

The 56 study participants make a significant contribution to Luxembourg's tax revenue.

- Participants paid in total an amount of € 568 M to the State of Luxembourg which represents 4.1% of the State total tax receipts amounting to € 13,959 M<sup>10</sup> (including social security contributions).

Within that percentage of 4.1%, 22.4% corresponds to the share of taxes borne and 77.6% to the share of taxes collected.

**Chart 2:** Split between taxes borne and collected by survey participants.



- Taxes borne
- Taxes collected

## Number of taxes paid by a survey company

- In Luxembourg, a company could be subject in theory to 31 taxes in total, namely 18 are taxes borne and 13 are taxes collected.
- On average, a company pays 5.5 taxes out of the 18 existing taxes borne.
- On average, a company pays 3.8 taxes out of the 13 existing taxes collected.
- On average, three taxes borne will be paid (the ratio taxes borne/taxes collected is 1.4) for two taxes collected paid by a company.

For fiscal year 2008, the TTC of these participants amounts to € 568 M out of which € 127 M are taxes borne, and € 441 M are taxes collected. This means that, for every euro of tax borne a company has paid, it has collected an additional € 3.5 in taxes from third parties, generally from its customers and employees, and remitted these to the tax authorities.

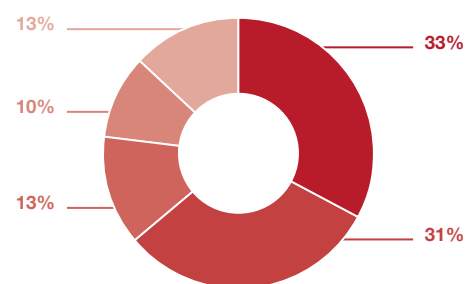
It is interesting to see that the amount of taxes effectively paid by a company is not linked to the number of taxes to which a company is subject. Indeed, on average, survey participants are subject to more taxes borne (i.e. 5.5) than taxes collected (i.e. 3.8). However, they pay more taxes collected than taxes borne.

## The industry sectors of the participants

The results of the survey aggregate responses from 56 participants representing a wide variety of industries:

- Industrial;
- Financial;
- Technology;
- Media & Entertainment, and;
- Others (metals and mining, retailing, ...).

**Chart 3:** Participants in the survey by industry sectors by percentage.



- Financials
- Industrials
- Media & Entertainment
- Technology
- Others

The participants represent a wide range of industries. The various sectors represented in the survey give a very broad overview of the Luxembourg market. Financial (33%) and Industrial (31%) are strongly represented. The last third of the pie is shared by Media and Entertainment (13%), Technology (10%) and Others (13%). This repartition is, however, not an accurate representation of the Luxembourg current business market since it is based on company participants in our TTC survey.

**Remark:** According to the Luxembourg Chamber of Commerce, the banking sector represented 32% of the Luxembourg GDP in 2008<sup>11</sup>. But Luxembourg resources does not only comprise banks and insurance companies, industrial companies but also the research and innovation industry, numerical economy, movies production, transport services, entertainment and environmental activities.

<sup>10</sup> Statec – E3300 Impôts et cotisations sociales (présentation agrégée) – Total Administrations publiques (secteur S1300) (en MIO) 1970 - 2009.

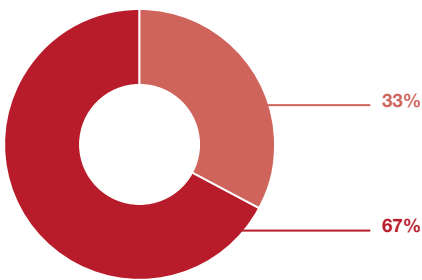
<sup>11</sup> Chamber of commerce of Luxembourg, "Petits pays, grands nombres", édition été 2010.

**In Luxembourg, a company could be subject in theory to 31 taxes in total, namely 18 are taxes borne and 13 are taxes collected.**

**Distribution of the taxes paid among the participants**

67% of the total taxes paid are paid by only five survey participants, highlighting the impact of big companies on Luxembourg tax revenue. This is due to the financial crisis where a large number of companies made losses.

**Chart 4:** Taxes paid by five survey participants.



- 5 companies
- 51 companies

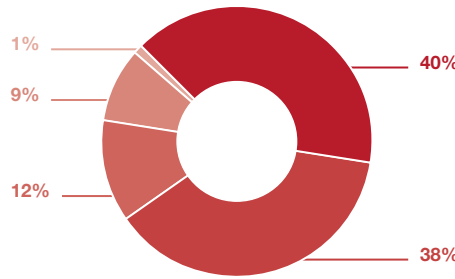
**Taxes borne vs. taxes collected**

**Taxes borne**

*Taxes borne by 5 Ps*

The People taxes turn out to be the biggest burden (40%), followed by the Profit taxes (38%).

**Chart 5:** Taxes borne by 5 Ps.

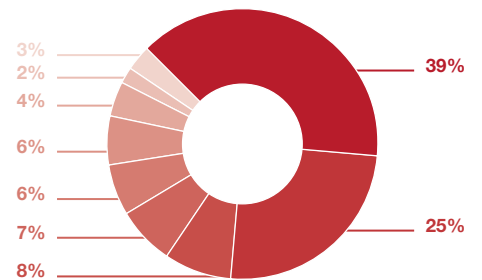


- People taxes
- Profit taxes
- Product taxes
- Property taxes
- Planet taxes

*Taxes borne by types of tax*

Within the taxes borne category, the People taxes mainly comprise social security contributions (39%) whereas the Profit taxes are mainly composed of CIT (25%), Chamber of commerce contribution (8%) and MBT (6%).

**Chart 6:** Taxes borne by types of tax.



- Social security
- CIT
- Chamber of commerce
- NWT
- MBT
- Total fuel excise duty
- Irrecoverable VAT
- Commune real estate tax
- Others

This pie chart shows that a Luxembourg company does not only pay income taxes, which represents 39% of the contributions (sum of CIT, MBT and chamber of commerce contribution), but also a very large share of social security (i.e. 39%).



**People taxes (61%) represent the largest majority of taxes collected, followed by the product taxes (36%).**

In this respect, Luxembourg benefits from a high quality social security system as it encompasses:

- family allowances;
- unemployment insurance;
- work accident insurance;
- illness;
- old age pensions;
- invalidity pensions, and;
- long-term care insurance.

These costs are paid by both employer and employee. Therefore, taxes collected also include social security charges.

- Employment figures  
The high level of remunerations in Luxembourg, the highest of the Eurozone<sup>12</sup>, could also explain why the social security contributions are considerable. This high remuneration is one of the strength of Luxembourg to attract highly qualified people but is also a risk in terms of high cost pressure. On average, the employment taxes per employee corresponds to 31.4%.

- The Chamber of Commerce contribution  
The share of contributions to the Chamber of Commerce is also quite important (i.e. 8%). The Chamber of Commerce contribution is levied on all Luxembourg taxpayers who carry on commercial, financial or industrial activities in Luxembourg. The applicable rate is maximum 0.2% on the taxpayer's taxable basis calculated for corporate income computed for the year "n-2"<sup>13</sup>.

### Taxes collected

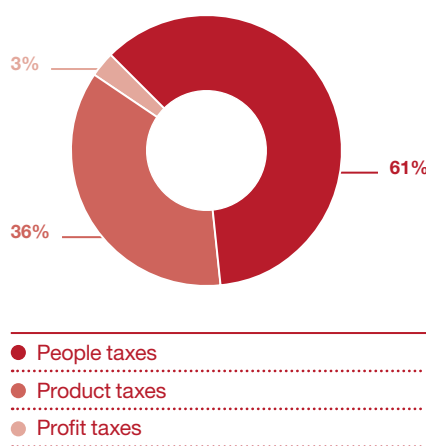
#### Taxes collected by 5 Ps

People taxes (61%) represent the largest majority of taxes collected, followed by the product taxes (36%).

As the share of social security contribution is very high, it is an unavoidable burden for a company employing people in Luxembourg.

Besides, there are no taxes collected on planet or on property paid by the participants.

Chart 7: Taxes collected by 5 Ps.



**Remark:** Environmental taxes are defined by the OECD as “a tax whose tax base is a physical unit (or a proxy of it) that has a proven specific negative impact on the environment. Four subsets of environmental taxes are distinguished: energy taxes, transport taxes, pollution taxes and resources taxes. Taxes should not be confounded neither with payments of rent nor with purchase of an environmental protection service.”<sup>14</sup>

Based on the OECD statistics, environmental taxes or green taxes paid by companies and individuals to the Luxembourg State represent only 2.51% of the Luxembourg GDP in 2008, which is more than the average OECD of 1.58%.<sup>15</sup>

Luxembourg environmental taxes are split between taxes on energy products with 2.34% and taxes on motor vehicle (to limit carbon emissions) with 0.17% of its GDP. There is no tax on pollution or resources.

Luxembourg has the highest GDP per capita among the other OECD countries with USD 106,831<sup>16</sup> but produces the highest rate of CO2 with 22.5%<sup>17</sup>. Similarly, the TTC study clearly shows that green taxes' share is not significant for the taxes borne as well as for the taxes collected.

Indeed, it appears that the current focus of the tax authorities is to encourage companies to make sustainable investments by providing tax incentives through capital/interest subsidies, special depreciation, tax credit or exemption for income deriving from qualified “green” intellectual property. Except for this last measure, it should, however, be noted that most of these provisions have existed in Luxembourg legislation for years and have just been extended to sustainable investments recently. Therefore, aside from excise duty which is the main environmental tax collected, the few existing environmental taxes implemented in Luxembourg derive from EU regulations. This should still remain the main driver in the Luxembourg sustainable tax field for the next couple of years.

15 OECD, Composition of environmentally related tax revenues by country : 2008.

16 World Bank national accounts data, and OECD National Accounts data files, GDP per capita (in USD), 2007. Available on the World Bank website.

17 OECD Environmental Performance Review of Luxembourg, CO2 per capita, 2007.

14 OECD glossary, definition of “environmental tax”.

12 Euro stat, Median earnings 2006 (median gross annual earnings of full time employees) in €.

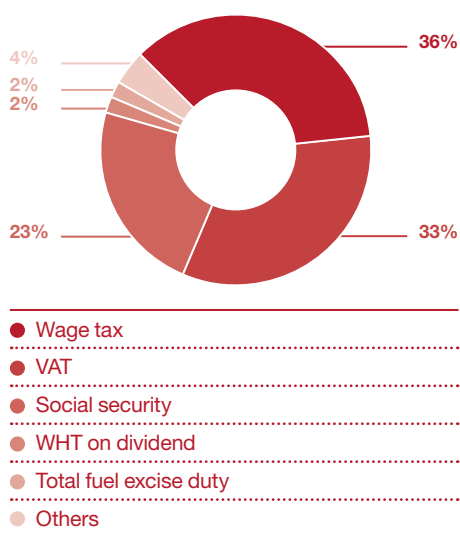
13 Bill 5939 of 26 October 2010 and the subsequently released regulations of 4 and 12 November 2010 reformed the organisation of the Luxembourg Chamber of Commerce.

**The low impact of withholding tax (roughly 2%) on the company payments could be seen as a competitive advantage when compared to other jurisdictions.**

**Taxes collected by types of tax**

On average, a company mostly pays wage taxes (i.e. 36%) and social security (employee’s share) contributions (i.e. 23%), as well as VAT (i.e. 33%) as collected taxes. The “Other” taxes include the contribution to the chamber of private sector employees, insurance premium tax, withholding tax on dividend and interest (Luxembourg resident and non-resident).

**Chart 8: Taxes collected by types of tax.**



The low impact of withholding tax (roughly 2%) on the company payments could be seen as a competitive advantage when compared to other jurisdictions.

This low percentage is mainly due to:

- the application of the EU Parent Subsidiary Directive, which allows the exemption of withholding tax on dividend payments (under certain conditions);
- the exemption of Luxembourg withholding tax on most of the interest and royalty payments.

The other types of withholding taxes (e.g. in relation with the Savings Directive) are not significantly present in our results.

**VAT is an important tax collected**

VAT turns out to be one of the most important sources of revenue for the Luxembourg state. In 2008, companies paid € 2 300 M of VAT to the Treasury which corresponds to 16% of the total revenues collected by the administration.

In the light of the TTC study, the results show that on average 26% of the total taxes contributed (i.e. both taxes borne and collected) by a participant are linked to the payment of VAT.

The total amount of VAT paid by the participants (i.e. € 87 M) represents 4% of the Luxembourg VAT revenue (i.e. € 2 300 M)<sup>18</sup>.

The total amount of VAT paid by the participants mostly concerns VAT collected. The portion of VAT borne is relatively low in view of the relatively low importance of companies for which VAT is a final cost (e.g. businesses in the financial industry).

The VAT regulations are constantly changing due to the increasing importance of this tax as a source of State revenue. In the context of the “Fight against Fraud” on the one hand and the request of business to reduce the burden of compliance on the other hand, two developments are important to mention: the upcoming implementation of the standard Audit File for Tax (SAF-T) in Luxembourg and the reorganisation of the competency of the VAT authorities/VAT offices. The standard Audit File for Tax (SAF-T), refers to the requirement for any taxable person with an electronic accounting system to provide the VAT authorities with its accounting records in electronic format, using a SAF-T standard file, which is designed to contain reliable data extracted from accounting systems. Its standardised layout and format make it easy to read. This should allow the VAT authorities to carry out efficient and effective electronic VAT audits and tax payers to reduce the time invested in the preparation of responses in case of an audit by the authorities.

The second important development is that, from 2011 the competency of the VAT authorities’ tax offices has been reorganised. As a result of this reorganisation, the responsibility of the tax offices will be firstly based on the type of business or on the legal form and the place of establishment where the effective economic activity has priority over the two other criteria. The type of business is determined by the NACE classification. This reorganisation allows specialisation of the tax offices and more focused on VAT-audits.

<sup>18</sup> See footnote 13.

**The average of the total amount of taxes borne and collected by the companies as percentage of their turnover is 11.47% for Luxembourg.**

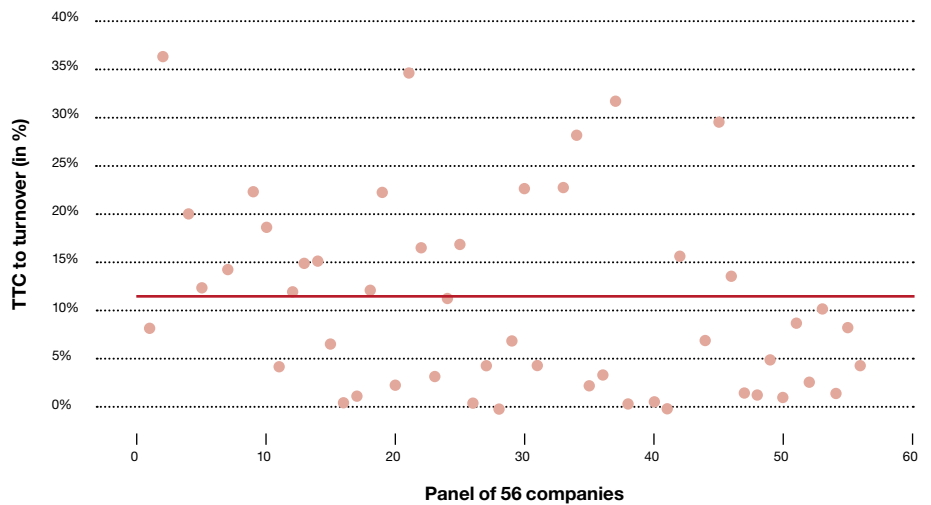
**The impact of the taxes on Luxembourg business**

*TTC to turnover: impact of the taxes borne and collected on companies' turnover*

The average of the total amount of taxes borne and collected by the companies as percentage of their turnover is 11.47% for Luxembourg.

The results vary a lot from one company to another since half of the companies represented in this scatter is below the average of 11.47% which is an indicator of a lot of companies being in a loss making position as the financial crisis started to hit companies in their results.

**Chart 9: Total taxes as percentage of the turnover.**



*TTR: impact of taxes borne on profit*

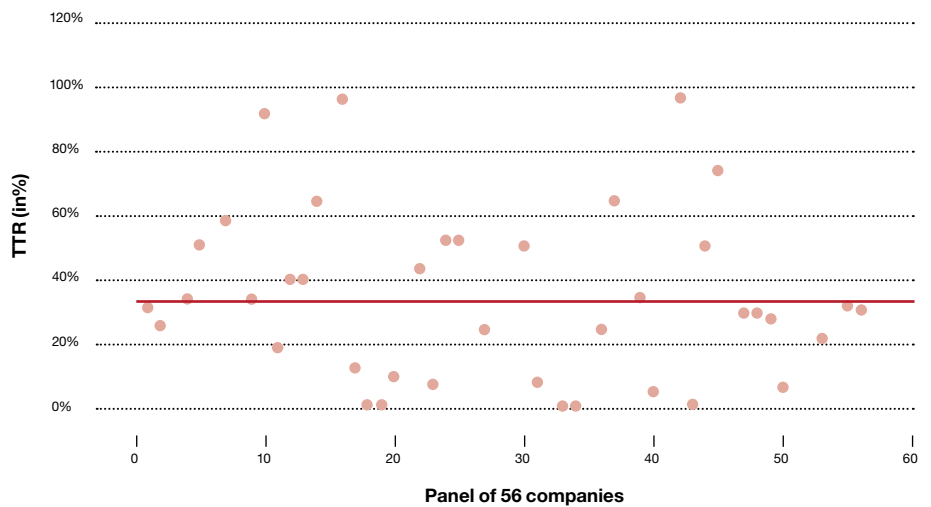
The TTR is used to measure the effective tax burden of the companies surveyed. As shown in the computation example (see *Chart 1*), the TTR is only based on taxes borne, and it compares the total taxes borne with the profit before deducting all taxes borne.

The average TTR for Luxembourg was 34.1% in 2008.

In other words, on € 100 earned by a participant, the company pays on average € 34.1 to the Treasury.

The chart shows the repartition of the 56 participants compared to the average TTR. Some companies do not appear on this chart because they were in a loss making position. Some companies have their average TTR quite high even though they do not have a significant profit. This could be explained by constant taxes that companies have to pay irrespective of their profit such as payroll taxes.

**Chart 10: TTR for each participants.**



*The average TTR for Luxembourg was 34.1% in 2008.*

*In other words, on € 100 earned by a participant, the company pays on average € 34.1 to the Treasury.*

# International comparison

The TTC framework has been used in several countries and can therefore be an effective tool for international comparisons. Therefore, Luxembourg companies can compare their results with businesses in the United Kingdom, the United States of America, Australia, the Netherlands, Switzerland, South Africa, India, Belgium, Canada and Japan.

## Corporate Income Tax rate in various OECD countries

According to the OECD, the nominal corporate income tax rates in developed economies vary from 12.5% in Ireland to 39.25% in the United States.

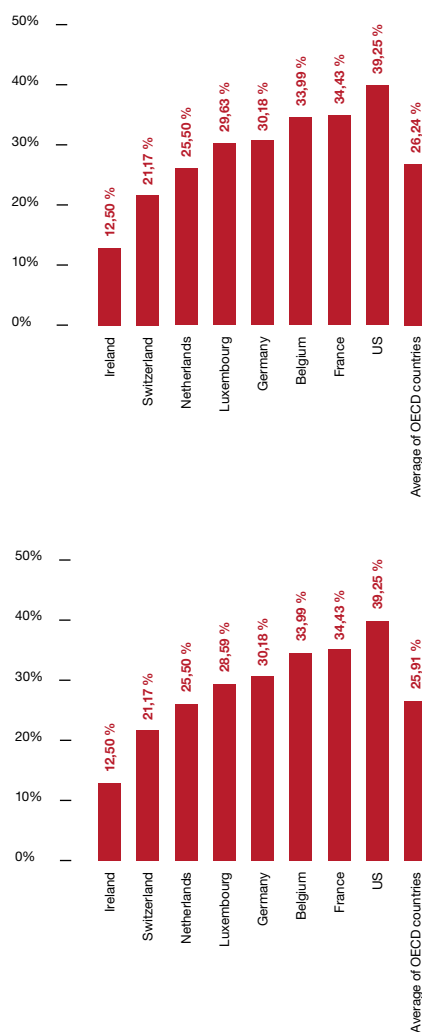
The average corporate income tax rate of the OECD countries was 26.24% in 2008 and slightly decreased in 2010 to 25.91%<sup>19</sup>.

The global Luxembourg corporate income tax rate (i.e. 29.63% in 2008) stood in the middle of the ranking. The Luxembourg rate in 2008 was made up of:

- CIT at 22.88 % (including a 0.88 % solidarity contribution), and,
- MBT at 6.75% (rate only applicable for Luxembourg City).

The MBT may vary from one city to another. The CIT has been reduced as from 1 January 2009 at 21.84 % (including the solidarity contribution). The total aggregate amount was therefore 28.59%. As from 1 January 2011, the aggregate rate of CIT and MBT has increased from 28.59% to 28.80%.

**Chart 11 and 12:** Corporate income tax rates in some OECD countries in 2008<sup>20</sup> and 2010<sup>21</sup>.



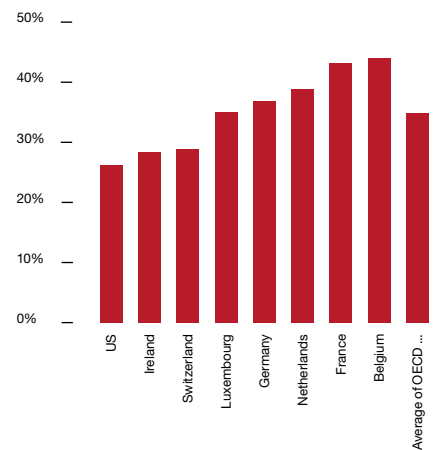
● Corporate tax rates

## Luxembourg tax revenue as percentage of GDP

In 2008, the Luxembourg tax revenue (i.e. € 13,959 M<sup>22</sup>) represented 35.5% of the Luxembourg GDP<sup>23</sup> (i.e. € 39,630 M<sup>24</sup>).

When compared to other OECD countries, Luxembourg still stands in the middle of the range and slightly above the average of OECD countries tax revenue as percentage of GDP (i.e. 35%).

**Chart 13:** Total tax revenue as a % of GDP for OECD countries in 2008<sup>25</sup>.



● Total tax revenue as a % of GDP

19 OECD Tax database, C – Corporate and capital income taxes, Table II.1 Basic (non-targeted) corporate income tax rates. Website: [http://www.oecd.org/document/60/0,3343,en\\_2649\\_34533\\_1942460\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/60/0,3343,en_2649_34533_1942460_1_1_1_1,00.html)

20 See footnote 5.

21 OECD Tax database, C – Corporate and capital income taxes, Table II.1 Basic (non-targeted) corporate income tax rates. Web site: [http://www.oecd.org/document/60/0,3343,en\\_2649\\_34533\\_1942460\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/60/0,3343,en_2649_34533_1942460_1_1_1_1,00.html)

22 Stateg - Impôts et cotisations sociales (présentation agrégée) - Total Administrations publiques (secteur S1300) (en millions €) 1970- 2009. Website: [http://www.statistiques.public.lu/stat/TableViewer/tableView.aspx?ReportId=1479&IF\\_Language=fr&MainTheme=5&FldrName=3&RFPPath=75](http://www.statistiques.public.lu/stat/TableViewer/tableView.aspx?ReportId=1479&IF_Language=fr&MainTheme=5&FldrName=3&RFPPath=75)

23 See footnote 9.

24 Stateg - Website: <http://www.stateg.public.lu/fr/education/indicateurs/index.html>

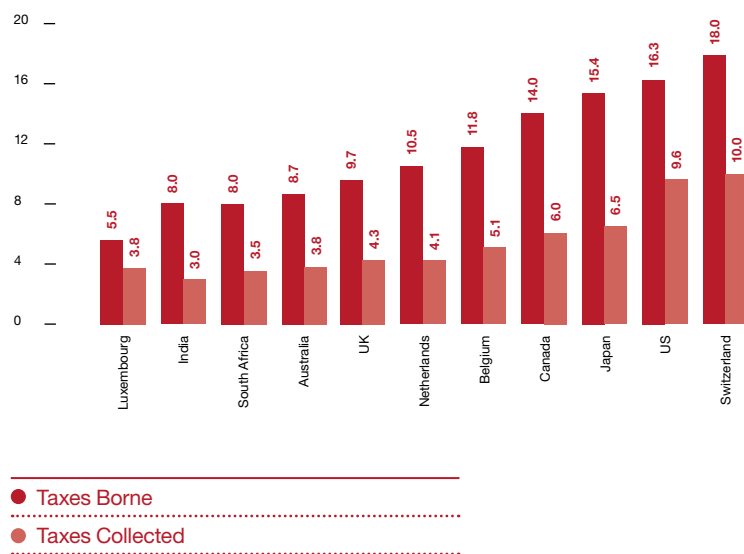
25 OECD Tax database – Table A Total tax revenue as a percentage of GDP. Website: <http://www.oecd.org/dataoecd/13/38/46721091.xls.pdf>

Even though the financial sector represents the biggest contributor to the state revenue (32% of the GDP<sup>26</sup>), Luxembourg collects revenue from other sectors such as communication and entertainment, insurance and re-insurance companies, research and development, services, etc.

**Number of Luxembourg taxes borne and collected compared to other countries.**

The chart shows that Luxembourg has the lowest actual number of taxes borne and collected, which simplifies the tax compliance aspect for the companies in Luxembourg. Indeed, there is a direct correlation between the complexity of a tax system and the tax compliance time spent by companies. Additionally, centralised tax systems as in UK or in Luxembourg tend to have fewer taxes.

**Chart 14: Average number of taxes borne and collected by companies in each country.**



This chart represents the figures for companies having responded to the survey and does not reflect the actual number of taxes borne and collected to which a Luxembourg company is usually subject to.

**... centralised tax systems as in UK or in Luxembourg tend to have fewer taxes.**

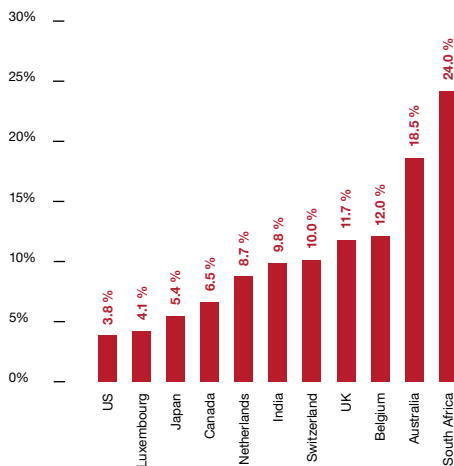
26 See footnote 9.

**On average 25% out of the taxes borne paid by the participants are CIT which places Luxembourg in a leading position.**

**Luxembourg total taxes borne and collected as percentage of government's receipts compared to other countries**

The total taxes paid by the survey participants correspond to 4.1% of the total tax revenue collected by the Luxembourg Treasury. When compared to other countries, Luxembourg TTC is the second lowest after the United States, which could easily be explained by the fact that the TTC study has been launched for the first time in 2008.

**Chart 15:** Total taxes (borne and collected) paid by the participants to the study as percentage of each government tax receipts.

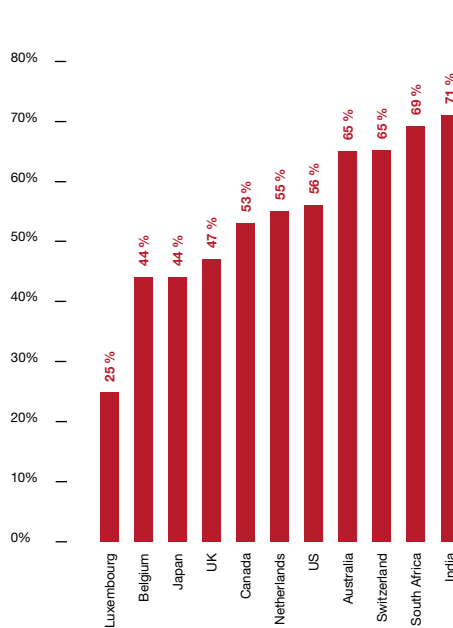


**CIT to total taxes borne compared to other countries**

On average 25% out of the taxes borne paid by the participants are CIT which places Luxembourg in a leading position. This position could potentially be partially explained by the economic crisis, which resulted in lower profits for companies.

In other countries the corporate income tax share in the total of taxes borne is close to 50% (i.e. UK, Canada, Netherlands, US) and above (i.e. Australia, South Africa and India).

**Chart 16:** CIT to total taxes borne compared to other countries.



**TTC to turnover compared to other countries**

Luxembourg has the third lowest average rate of TTC as percentage of turnover (i.e. 11.47%) compared to other countries participants which is explained by a large number of loss making participants who do not pay corporate tax. For Luxembourg, on average 3.43% of the total taxes contributed are taxes borne to turnover whereas 8.04% of the total taxes contributed are taxes collected to turnover.

This low number is explained by the high number of loss making companies which obviously do not pay corporate tax. The other countries stand in positions, which could mainly be explained by the specificity of their own tax regime. For instance, US is in a leading position due to the absence of VAT and withholding tax on wages which is indeed not comparable to Luxembourg.

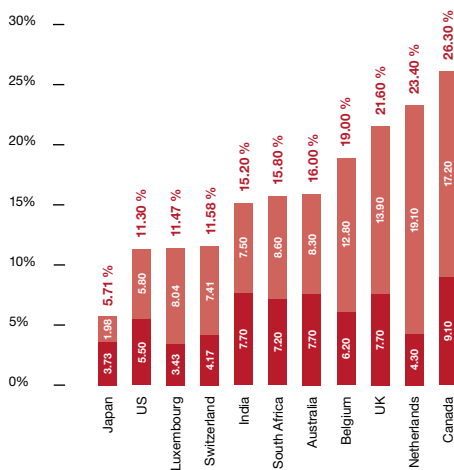
Additionally, the industry picture is quite different from one country to another. In the UK TTC study for example, the oil industry is well represented, which automatically leads to the payment by the oil companies of a significant amount of fuel excise duty, increasing the share of the taxes collected accordingly.

Finally, the data provided by the other countries may be from different years (2007 or 2009) for some of them, which would imply to take into consideration the economic context in terms of company business profit and government's revenue.

It also shows that Luxembourg companies' tax burden is not only made of corporate income taxes and that social security is a very important contribution.

**When compared to other countries, the 2008 Luxembourg TTR with 34.1% was approximately in the middle of the TTR's ranking which demonstrates that Luxembourg companies pay a lot of taxes and not only income taxes.**

**Chart 17:** Comparison of the average TTC as a percentage of the turnover.



- Taxes Borne
- Taxes Collected

Luxembourg has the lowest average number of taxes borne and collected when compared to other countries participants. Therefore, the survey participants being effectively subject to a low number of taxes borne and collected, will also pay less taxes. This low rate for Luxembourg is mainly due to its attractive and flexible tax and regulatory environment.

**TTR compared to other countries**

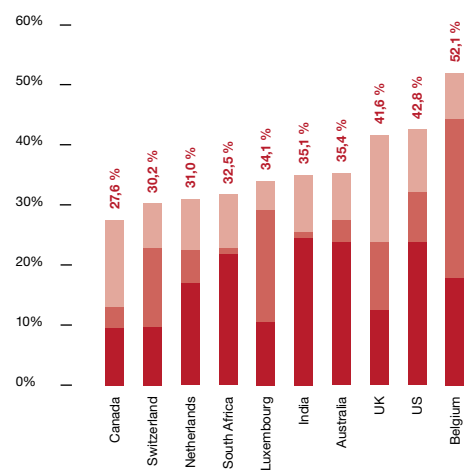
When compared to other countries, the 2008 Luxembourg TTR with 34.1% was approximately in the middle of the TTR's ranking which demonstrates that Luxembourg companies pay a lot of taxes and not only income taxes. Therefore, Luxembourg is far from being a tax haven and has instead a very balanced TTR. Chart 18 provides for such international comparison, split between income taxes, labour taxes and other taxes.

Canada has clearly the lowest TTR rate with 27.6% which is mainly due to the very low labour tax share (i.e. social security contributions).

The other countries which have a TTR between 30% and 35% such as the Netherlands and Luxembourg are all very close to each other even if some of them have very different tax system (i.e. India and Luxembourg).

Based on the graphic below, Luxembourg has the lowest rate for income taxes which is first due to its very straight forward tax system and low number of income taxes effectively paid. This factor could be combined with the fact that in 2008 companies realised lower profits than expected due to the start of the economic downturn. On the other hand, people taxes are, with Belgium, the biggest part of the tax burden of Luxembourg companies which explains why it stands in the middle.

**Chart 18:** International Comparison of the average TTR.



- Income taxes
- Labour taxes
- Other taxes borne



# Appendix 1

## List of Luxembourg taxes borne and collected

List of Luxembourg corporate taxes <sup>27</sup> borne and collected in 2008 <sup>28</sup>	Taxes borne	Taxes collected	List of Luxembourg corporate taxes borne and collected in 2008	Taxes borne	Taxes collected
<b>Profit taxes</b>			<b>Product taxes</b>		
Corporate Income Tax (CIT)	●		Insurance Premium Tax	●	●
Municipal Business Tax (MBT)	●		Car registration duty	●	
Contribution to the Chamber of Commerce <sup>29</sup>	●		Motor vehicle tax	●	
Withholding tax on dividends, interest and others		●	Boat registration duty	●	
<b>Property taxes</b>			<b>Planet taxes</b>		
Net Wealth tax	●		Energy tax (production, distribution of electricity)	●	
Capital duty	●		Carbon tax	●	
Registration duty (i.e., on transfer of real-estate property, on rental agreements, on exchange of real estate property)	●		Tax on large commercial vehicle ("e-vignette")	●	
Property tax	●		Garbage tax	●	
Mortgage tax	●		"Kyoto" excise duty	●	●
Subscription tax	●				
Stamp duty	●				
<b>People taxes</b>					
Social Security – employer's share	●				
Social Security – employee's share		●			
Withholding tax on wages, salaries, and pension schemes		●			
Tax on director fees		●			
Withholding tax on capital income		●			
Withholding tax on interest		●			
Tax on savings income		●			

<sup>27</sup> This list only includes taxes applicable to corporations and not to individuals.

<sup>28</sup> This list is not exhaustive. These are the main taxes paid/collected by companies in Luxembourg.

<sup>29</sup> Chamber of commerce is not a contribution to the State but it has been included in the list of taxes since the amount contributed by the companies is quite significant in Luxembourg.

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## Appendix 2

### *Sectors description*

- **Financials:** banking, asset management, legal, ...
- **Industrials:** industrial engineering, industrial transportation, industrial products, ...
- **Media & Entertainment:** advertising, marketing agency internet, communication, individual transportation, tourism, ...
- **Technology:** automotive components, electronic, security, ...
- **Others:** various sectors such as retailers, building construction, metals, ....

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