

Why Luxembourg: VAT advantages for commercial companies*



*connectedthinking

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Luxembourg as an international decision-making, financing or distribution hub: an opportunity to be seized by many multinational corporations.

In addition to being a place of choice for financial institutions and holding structures, Luxembourg offers a range of advantages in terms of indirect taxes and more specifically in terms of VAT. This leaflet summarises the most interesting ones.

General advantages offered by Luxembourg

Luxembourg offers a very favourable socio-politico-cultural environment whose main features are:

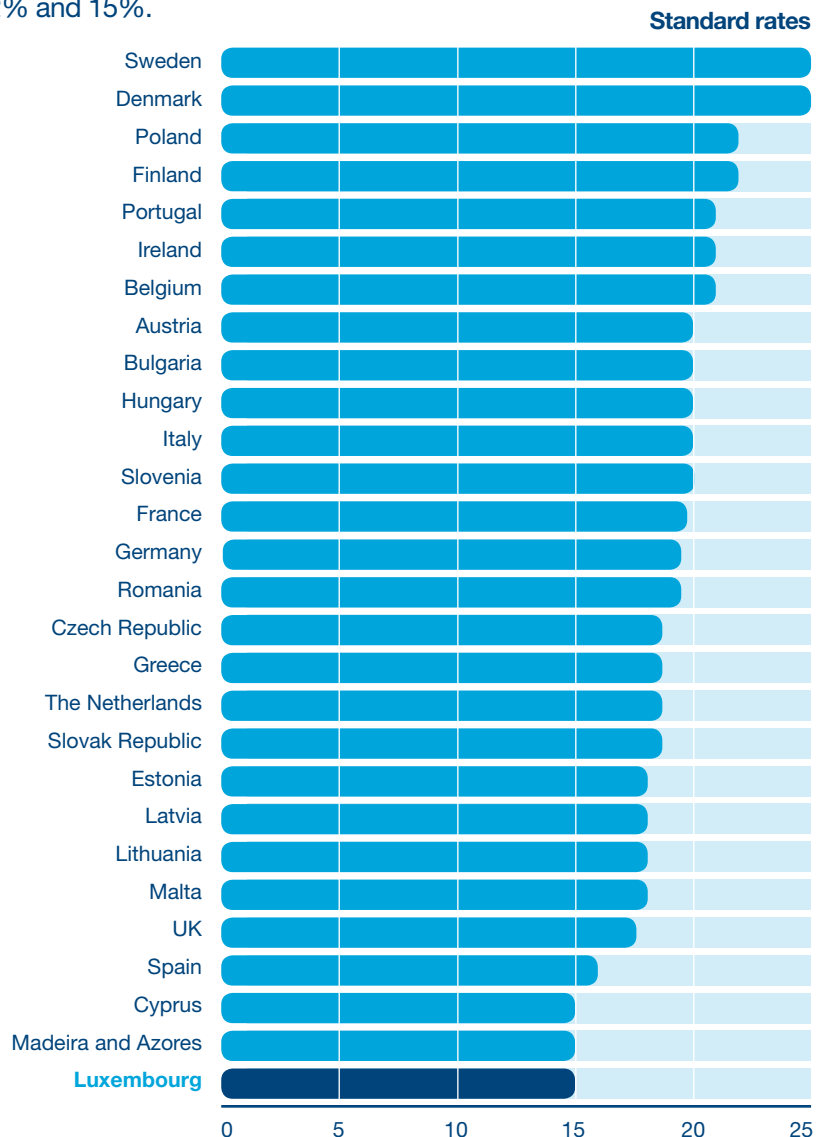
- **Sovereignty:** easy access to public authorities, stability and international recognition typify the Luxembourg political attitude.
- **Strategic airport:** the logistics centre for distribution of goods (e.g. ordered via the Internet), home of a successful cargo carrier for global distribution, potential for major air-rail-road hub for European distribution.
- **Governmental support:** for the development of industrial and business parks connected to industrial, logistics and telecommunication services.
- **Quality of life:** environment, education, security, culture and highest net per capita income in Europe.
- **Multilingual workforce:** which includes a high proportion of finance and accountancy specialists, but also workforce skilled in traditional business technologies.
- **Excellent geographical position:** hub in the centre of Europe.
- **Reliable road connections and energy network.**

VAT advantages offered by Luxembourg

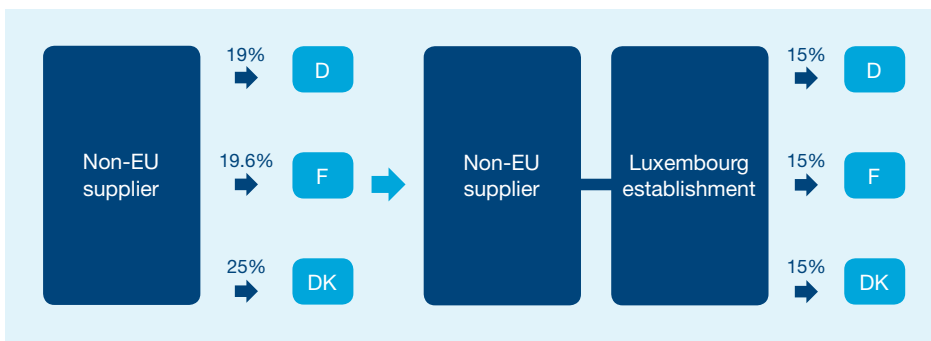
Low VAT rates

Since VAT has been instituted in the European Union (EU), Luxembourg has always applied the lowest VAT rates in the EU. The different rates applicable in Luxembourg are: 3%, 6%, 12% and 15%.

Domestic supplies are therefore less taxed than in any other EU country. But this advantage may also benefit supplies to non-Luxembourg customers.



Electronically supplied services



Low VAT rate on electronically supplied services

As from 1st July 2003, non-EU suppliers (with no establishment and no requirement to otherwise be identified for VAT purposes in the EU) providing electronically supplied services (ESS) to private individuals in the EU are required to be identified for VAT purposes in one Member State of their choice and charge VAT on these electronically supplied services at the rate applicable in the customer's country of residence.

By setting up a bridgehead (a subsidiary or a branch) in Luxembourg, non-EU suppliers need to charge their EU customers only with Luxembourg VAT at 15%. Applying this unique rate of 15%, which is the lowest in the European Union, represents a considerable advantage for the supplier. Furthermore, this simplified process makes pricing easier and independent from the private individual's country of residence.

It has to be highlighted that major international businesses have well understood the advantages and have set up in Luxembourg a European services platform for their electronic services such as telephone on the internet, online music services and video on demand services.

Low VAT rate on broadcasting services

The Budget Law dated 29 December 2006 introduced the super reduced rate of 3% on broadcasting and radio services. This rate is the lowest in the EU for this type of services.

Low VAT rates on services rendered to holding companies

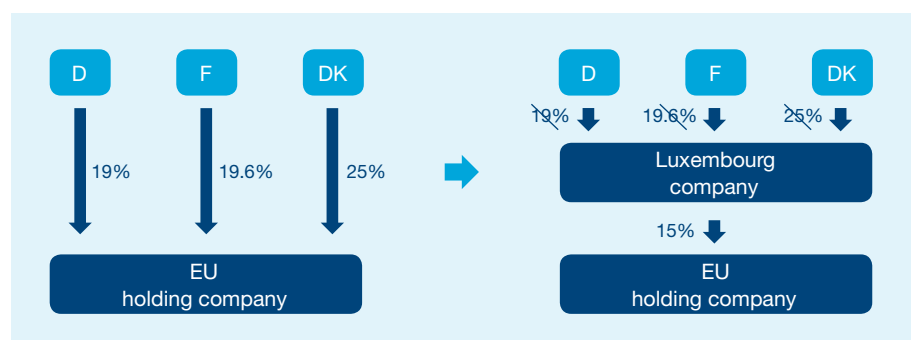
Pure holding companies – and other legal bodies that do not perform any economic activity from a VAT point of view – do not have the status of taxpayer for VAT purposes.

This impacts the rules regarding the place of taxation of most services rendered to them ("intangible" and "intellectual" services such as legal services and tax advisor services).

Services invoiced to holding companies (wherever they are incorporated in the EU) could trigger an important VAT cost ranging from 15% to 25% depending on the supplier's country of establishment.

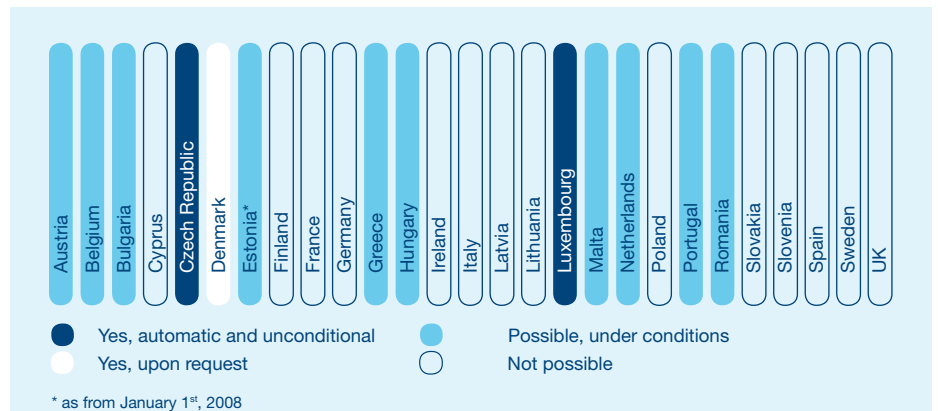
Proper structuring in Luxembourg could allow the fees charged to a commissionaire and subsequently recharged to the holding company to be subject to the more favourable Luxembourg VAT rate of 15%.

Holding companies





Possibility to shift payment of import VAT to the VAT return



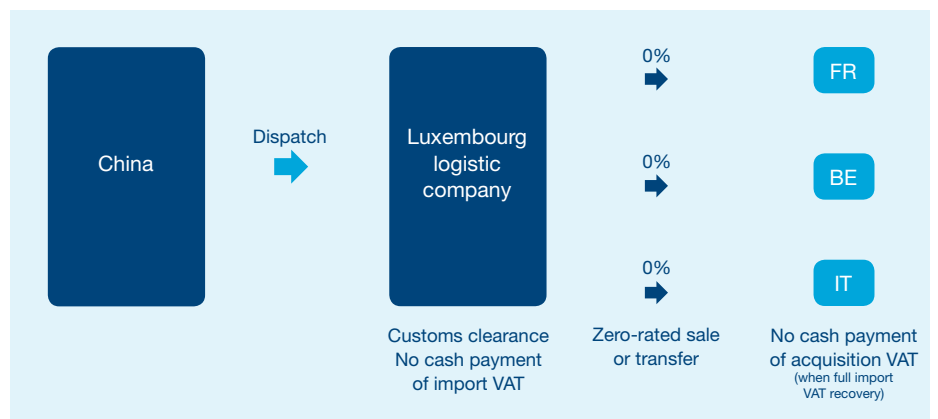
Pre-financing optimisation

Even for companies entitled to full input VAT recovery, VAT on purchases of goods or services may represent a cost: the cost linked to the pre-financing of VAT. Before recovering the VAT paid to suppliers, taxable persons often have to wait for months, effectively losing money because of this unavailability of capital.

For example, importing goods into the EU generates a VAT liability in the country of importation (unless the import is exempt or goods are placed under a specific customs regime). Most EU countries ask for a payment of the tax or require cash guarantees to be set up in order to defer this payment.

In Luxembourg, however, the payment of the import tax is shifted without any condition to the VAT return. There is no cost linked to the pre-financing of import VAT. Moreover, if the goods are subsequently delivered to a business outside Luxembourg, no VAT needs to be charged on this cross-border transaction. Luxembourg proves therefore to be a privileged location for import and distribution of goods from a VAT perspective.

No VAT pre-financing in case of import of goods



Other indirect tax advantages

In terms of indirect taxes, Luxembourg also offers other more pragmatic advantages.

- No restrictions on the VAT recovery on car-related, entertainment and accommodation expenses incurred for business purposes;
- Limited guarantees requested by the VAT authorities from non-EU companies registering in Luxembourg;
- Optional VAT representation for foreign traders importing goods in Luxembourg;
- Straight forward VAT compliance;
- Direct contacts with the Customs and VAT authorities.

Other direct tax advantages

Benefits of expanding your business in Luxembourg also include:

- Low effective corporate tax rate;
- Various tax incentives;
- Larger foot print for groups with financial and holding companies in Luxembourg;
- Limited personal tax pressure.



Our services in the field of indirect taxes

Advisory

We advise our clients on any indirect tax issue they may face. We assist them in answering questions on a regular basis but also in implementing projects on a larger scale. We ensure that any new activity or transaction is in line with VAT requirements, notably by reviewing contracts, and suggest any adequate planning opportunity.

VAT Helpline

We offer our clients the possibility to subscribe to our “VAT Helpline”, which allows them to quickly obtain answers to their day-to-day questions.

VAT compliance

The PricewaterhouseCoopers outsourcing proposition allows our clients to rely on us to deal with their VAT obligations and manage the risk of non-compliance, allowing to cut back on support function costs, focus on core competencies and centralise accounting systems.

VAT recovery

PricewaterhouseCoopers has a tried and tested approach, which can help identify both VAT that has been paid in error and VAT, which has not been correctly recovered.

VAT recovery in the financial sector

We have proven expertise to achieve the best possible approach to VAT recovery, thereby maximising savings and reducing costs.

VAT and Investment Management

Our experience to identify potential VAT costs in IM and financial structures and achieve VAT-efficient fee structuring is a valuable asset for our clients in the financial sector.

M & A

VAT-efficient structuring and “due diligence” VAT review are performed by our team to enable an optimisation of the cost of acquisition or disposal and an implementation of an optimal post transaction VAT structure.

Supply Chain Management

VAT and other indirect taxes usually account for 20% of many companies’ cash flows. By addressing key issues, such as VAT liability and invoicing, we help many of our international clients to develop “VAT and Customs advantaged” business models in the framework of their Supply Chain organisation.

“VAT advantaged” ERP system

Our dedicated team of ERP experts assists in the analysis, design and configuration phases, so that our clients have a totally efficient VAT system through automated VAT compliance, streamlined integrated reporting and audit trails.

Regulatory update

Our Knowledge Centre is able to provide our clients with updated legislation concerning all indirect tax matters.

Contacts with authorities

We can approach the VAT and Customs authorities on behalf of our clients and provide opinions or confirmations on the indirect tax treatment of specific transactions.

Contacts

Should you have any questions, please do not hesitate to contact one of our following experts:

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