pwc.lu

Luxembourg, a location ideally suited to Chinese investors

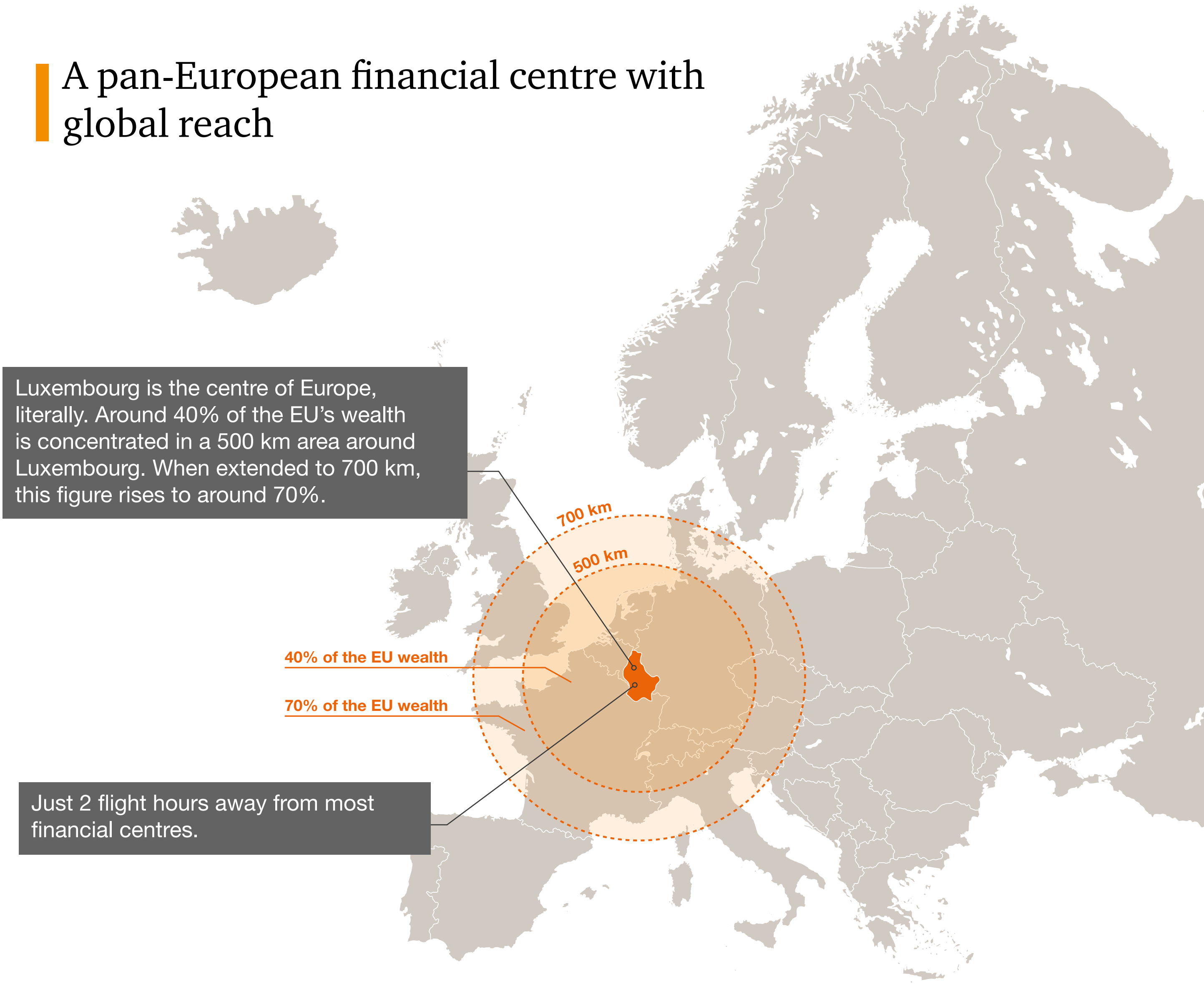
pwc

Why Luxembourg?

Many Asian sovereign wealth funds, pension funds and other investors allocate their investments to European alternative assets such as private equity and real estate. These investors need to consider various holding locations that would be the most suitable as an investment platform and we are convinced that a Luxembourg investment platform provides a competitive solution to their global investment strategy. The establishment of seven of the largest Chinese banks, in Luxembourg during recent years stands as proof of our viewpoint. The acquisition of one of the biggest banks in Luxembourg by a Chinese company, marks the largest takeover of a European deposit-taking institution and the 8th biggest bank held by a Chinese company in Luxembourg. In addition, major Chinese financial services companies have already established their EU headquarters in Luxembourg. In the same sense, a growing number of Chinese multinational enterprises have also incorporated their EU headquarters through Luxembourg.

In this brochure we provide an overview of the attractiveness of Luxembourg in the eyes of Chinese investors. We want to be your partner for an open discussion and help you find the solution that helps create the value you are looking for.

A pan-European financial centre with global reach



A solid, stable and international environment

- Listed among the **top 5** leading financial centres in the EU;
- Solid legal and fiscal framework;
- A multilingual environment with **3 official languages**: Luxembourgish, French and German; English is widely used;
- Political stability and **AAA rating country**;
- One of the lowest debt to GDP ratio in the EU (25.7%).

Source: Eurostat as of end Q3 2023.

An easy-accessible and supportive government

The Luxembourg government has always had an open and friendly ear for business players. The authorities are accessible, officials are easy to contact and open to dialogue. This close relationship between the government and the business community strengthens even more the Luxembourg's position as one of the most attractive fund centres.

A prosperous financial centre

Active banking market:

120+ international banks from 25 countries with approximately EUR 1 trillion in assets.

European headquarters of **7** Chinese banks: Chinese banks make up the second largest group at **11.6%** of market share in Luxembourg banking sector.

1 other bank is owned by Chinese shareholders.

Home of the global fund industry

1st European fund domicile and 2nd largest fund centre globally.

Over half (56%) global market share in cross-border investment funds.

The EU centre for cross-border insurance vehicles

Over 77 insurance and 203 reinsurance companies make Luxembourg **the leading cross-border insurance hub** in the EU.

1st largest captive reinsurance domicile in the EU.

EU headquarter for the first Asian insurance company in Europe.

A leading position on sustainability

- Tackle sustainability issues with sustainable financing thanks to innovation and continuous development of LuxSE, the first global exchange dedicated to sustainability;
- **1st leading green financial centre** in the Eurozone and **largest market share** of listed green, social, sustainable and sustainability-linked bonds:

A total scale of EUR 1 trillion of green and sustainable funds are provided on Luxembourg Green Exchange (LGX securities)

2,000+ green, social, sustainability and sustainability-linked bonds

3,700+ securities in LGX

Source: Luxembourg Stock Exchange Q3 2024.

A habitat for FinTech and innovation

- Digital innovation and artificial intelligence initiatives are at the heart of Luxembourg's strategy to become a leader in digital technology services (LHoFT, Ministry for Digitalisation);
- Over **220 FinTech innovators** operating from Luxembourg;
- Ideal innovation location chosen by major payments players including payment institutions from China have chosen Luxembourg for their EU HQs. More to come.

An international and highly productive workforce

46.7% of Luxembourg residents are not originally from Luxembourg. Each day, around 197,000 people commute to Luxembourg.

A defining characteristic of the Grand Duchy of Luxembourg is the diversity of its people and the ease of integration into the community. Luxembourg is the 3rd most inclusive economy in the world, promoting equal opportunities for all.

The labour market in Luxembourg offers a pool of highly skilled and multilingual resources, with around 80% of residents speaking English.

Luxembourg's quality of living, social security coverage, fine public infrastructure, rewarding packages and ideal gateway to European careers have attracted highly skilled profiles.

One of the best salary benefit structures in Europe after taxes

Luxembourg comparative costs of employees

Gross salary of EUR 100,000 for a married employee with 2 children

	Cost for company	Net salary	Ratio net salary / Company costs
Luxembourg	EUR 112,920	EUR 73,144	64.8%
Ireland	EUR 110,950	EUR 64,939	58.5%
Netherlands	EUR 110,917	EUR 57,897	52.2%

The data is by the end of 2019. By the end of 2023, Luxembourg's ratio net salary/Company has further increased to 67.16%.

Luxembourg had the 27th lowest tax wedge in the OECD for an average married worker with two children at 21.4% in 2023, which compares with the OECD average of 25.7%. taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with children in Luxembourg was 10.5% in 2023, which is the 30th lowest in the OECD.

Source: Eurostat as of end Q3 2023.

A stable and rewarding tax regime

- **Stability:** Luxembourg has one of the most stable and at the same time attractive corporate tax regimes in Europe.
- **0% withholding tax** on interest, royalties and dividends under certain conditions;
- Wide range of **100% exemption** on gains;
- **86 Double Tax treaties**, including China (January 2024);
- **18% tax credit** for investments and operating expenses connected with digital and ecological transformation under certain conditions since 1 January 2024;
- **Unlimited losses carry forward** when generated before 2017 (17 years limitation for losses generated as from 2017);
- **Lowest VAT rate** in Europe (17%).

Luxembourg direct tax regime summary

Tax area	Rates	
Statutory Tax Rate	24.94%	Corporate income tax and municipal business tax for entities (companies or branches set up in Luxembourg City for 2024). Municipal business tax rate depends on municipality of set up.
	0.5%	Net wealth tax (up to EUR 500M of tax basis).
	0.05%	For the threshold above.
Withholding Taxes	0%	on interest
	0%	on royalties
	0%	on dividends to qualifying EU and all other treaty country under certain conditions
Participation exemption with respect to subsidiaries*	100%	capital gains exemption
	100%	dividend exemption
	100%	net wealth tax exemption
		**Provided that the relevant conditions are met*

Luxembourg's double-tax treaty network 86 Double Tax Treaties (January 2024)

In re-negotiation

United-States of America
Slovak Republic

Africa

Botswana
Ethiopia
Mauritius
Morocco
Senegal
Seychelles
South Africa
Tunisia

Europe

Liechtenstein
Lithuania
Macedonia
Malta
Moldova
Monaco
Netherlands
Norway
Poland
Portugal
Romania
Russia
San Marino
Serbia
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine
United-Kingdom

In negotiation

Albania
Chile
Egypt
Kyrgyzstan
(Lebanon)
Mali
New-Zealand
Oman
Pakistan
(Syria)

Luxembourg VAT regime summary (date updated until 26 November 2024)

Tax area	Tax rates
Fund perspective	**VAT exemption** applicable to the management of funds, including: • Portfolio management services; • Administrative management services; and • Risk management and outsourced services. **VAT exemption** applicable to certain specific deal costs; **VAT recovery** on taxable deal costs allowed in accordance with the EU case law; **Light VAT filings obligations** for fund entities.
OpCos perspective	Luxembourg has **the lowest standard VAT rate** in the EU (currently and temporarily 17%).

Investment tax credit regime overview

Amendments to Article 152bis of the Luxembourg Income Tax Law open new avenues for your business.

Law applicable **as of January 2024; Multi-annual (up to 3 years)** projects are eligible.

Luxembourg-based companies of **all sizes and sectos with eligible digital or ecological % energy transformation or transition projects,** including technology updates, energy efficiency, and renewable energy intiatives, are in the scope of the new law.

Investments/expenses have to be made/incurred by Luxembourg taxpayers while the associated projects can be **implemented anywhere world widely.**

18% tax credits on **Investments** and **Operating Expenses.** (a general 12% tax credit on other investments)

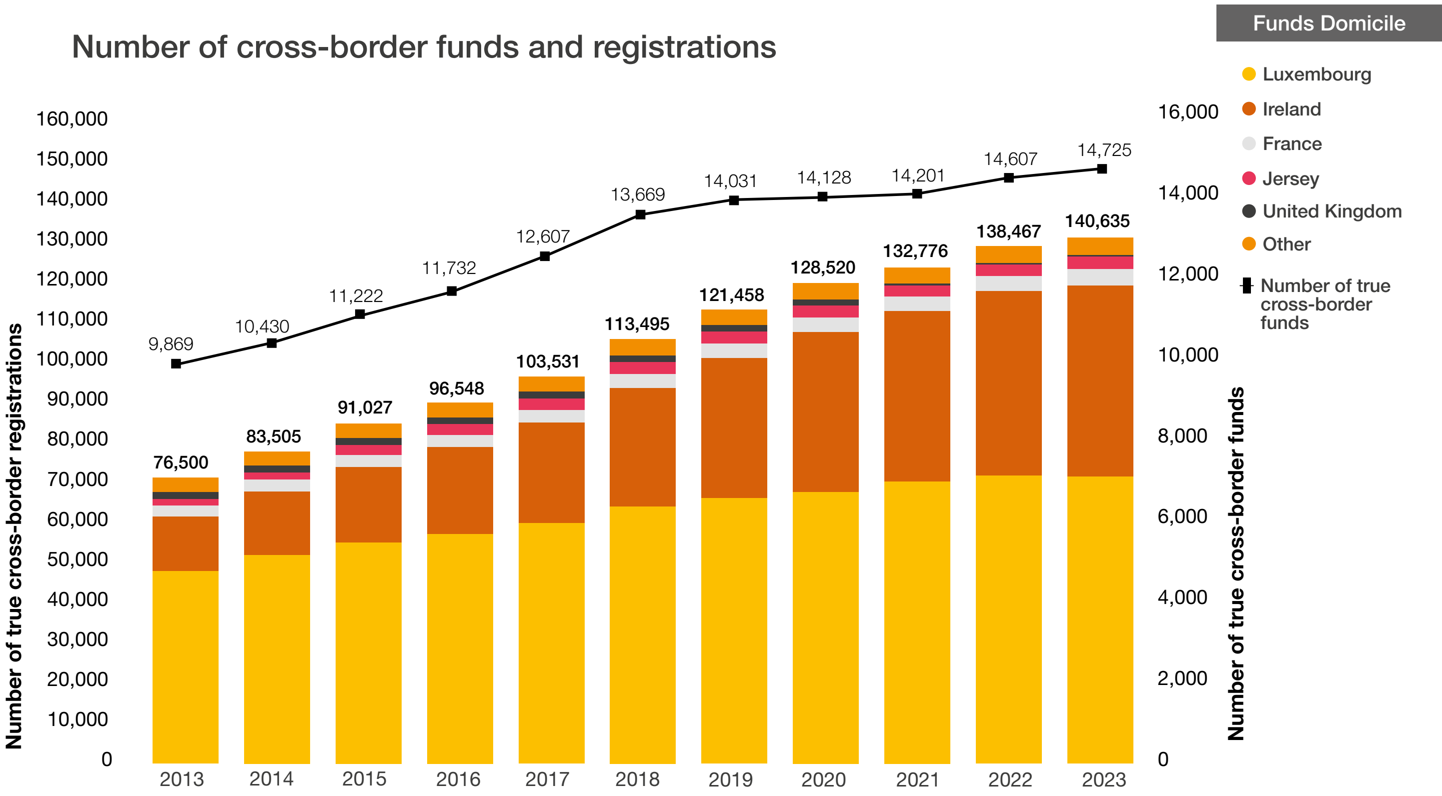
Luxembourg Fund Industry overview

Evolution of cross-border distribution

Luxembourg is the leading Fund domicile in Europe and the second largest fund domicile in the world.

Luxembourg remains, by far, the leader in global cross-border fund registrations with a market share of 54.6%, although experiencing a minor decline by 0.4% in the registrations of the Grand Duchy's funds in 2023.

Number of cross-border funds and registrations

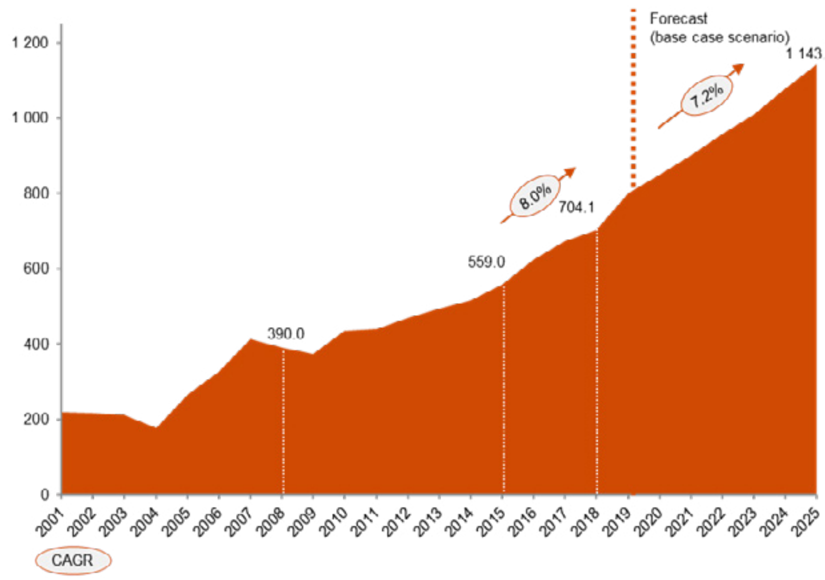


Average registrations per true cross-border fund	7.8	8.0	8.1	8.2	8.2	8.3	8.7	9.1	9.3	9.5	9.6

Source: PwC Global AWM & ESG Market Research Centre Analysis, Lipper

AuM statistics

AuM evolution of Luxembourg Regulated AIFs, EUR bn



Source: CSSF, as of March 2024

Alternative Investment Fund (AIFs) markets (private markets)

Luxembourg is the 3rd largest AIFs domicile in Europe and according to our baseline scenario, AIFs are set to register a CAGR of 7.2% over the forecasted period reaching EUR 1,143 billion at the end of 2025.

Source: PwC Market Research Center based on CSSF and Fundsquare (date updated until 26 November 2024)

An example for your European investment structure

Investor Level

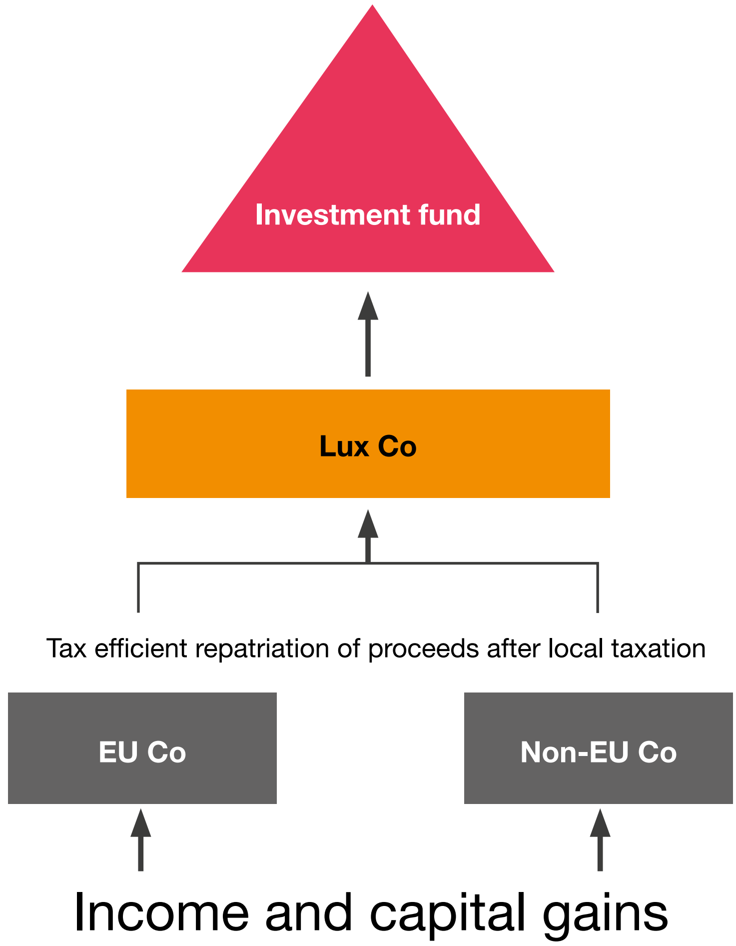
The flow of funds among investors and the investment platform needs to be:
- Flexible;
- Safe and secure;
- Tax efficient.

Platform Level

The investment platform needs to be:
- Safe and secure;
- Easy to manage;
- With low set-up and running costs;
- Sustainable for future;
- Tax efficient;
- Compliant with regulations;
- With no foreign exchange control.

Asset Level

The investment structure should facilitate:
- Maximum withholding tax protection at investment level;
- Flexible repatriation structures.



Investment structure commonly applicable to private equity or investment funds.
Investment structure should be tailored considering the specificities of the target investments/investors.
Depending on the types of income and the types of investor, different repatriation instruments are available.

Why PwC Luxembourg?

A truly global network:

We are a network of local firms operating globally, with **364,000** people in **151** countries.

PwC firms collaborate to serve international and local clients, while retaining the advantages of being local businesses.

Trusted and devoted:

A 20-year long-term relationship with China via China Business Group (CBG).

A leader in Luxembourg:

Largest firm of Big Four in Luxembourg.

9th largest employer in Luxembourg.

A one-stop-shop for all:

Cross-industry services to offer a comprehensive solution that addresses all of your needs.

PwC Luxembourg China Business Group introduction

PwC Luxembourg China Business Group

We have set up a dedicated team with a focus of serving Chinese funded companies and financial institutions for more than a decade. Our team consists of native Chinese speaking professionals from all service lines, including assurance, tax and advisory, covering fund industry, alternative industry, banking industry, insurance industry and more, and other subject matter experts to support our clients to excel in their business in China or their business in Europe.

Rich experience
with top Chinese financial institutions and companies.

We Listen, we speak:
our team of Chinese-speaking professionals are ready to listen and respond to your needs.

We know China:
Close collaboration with PwC China around various topics. We stay in trend with Chinese economy and political environment.

Doing business in China

PwC Luxembourg is committed to providing high-quality services to multinational companies investing in China. We maintain an expedient position and extensive connections within our international network. As we also have direct access to the technical resources of PwC offices in China, our firm is perfectly equipped to respond to your various needs.

Assisting Chinese companies in doing business in Europe

We provide Chinese companies with a comprehensive array of professional services, ranging from audit, business and financial advice to global human resources solutions, management consulting and tax services. Our experienced team of Chinese-speaking professionals can help you in all aspects of your journey in Europe. As part of the PwC EU Chinese Business Group (EU CBG), we are equipped with the capacity to serve our clients jointly with PwC firms across EU.

Our credentials

Setting up of a Luxembourg investment platform by a Middle-East sovereign wealth fund for USD 2bn

Investor advised by PwC Luxembourg

PwC Luxembourg advised on the set up of a Luxembourg investment platform with a view to acquire Brazilian private equity assets. The investment platform was provided with funds in excess of USD 2 bn. Our services included set up, accounting & tax compliance support.

Top-tier private equity Funds

Structuring services provided by PwC Luxembourg

Many real estate and private equity funds use Luxembourg as a fund location.

Advising Asian pension funds on the establishment of investment holding platforms for real estate investments in Europe

PwC Luxembourg structured funds and investment platforms for a number of Asian Funds. Our services include tax structuring and regulatory support in connection with regulated and unregulated fund vehicles.

Applying for Luxembourg banking licenses on behalf of a top-tier Chinese bank

PwC Luxembourg helped the bank obtain the universal banking licenses in Luxembourg for a subsidiary and a branch, which enabled it to perform a wide range of activities in Europe and internationally.

Our services included banking licences application, tax compliance, consultancy service and audit support.

Advising a non-sovereign regional cooperation fund in Luxembourg by a HK asset manager

PwC Luxembourg helped the fund perform an analysis in respect of the potential impact of the hybrid mismatches rules on the fund.

PwC Luxembourg advised the intra-group financial instruments structuring.

Setting up of a Luxembourg investment platform by a Middle-East sovereign wealth fund for USD 2,1bn investor advised by PwC Luxembourg

PwC Luxembourg structured funds and investment platforms for a number of promoters in the Middle East region.

Our services included tax structuring and regulatory support in connection with regulated and unregulated fund vehicles.

Advising Asian asset managers on the establishment of fund vehicles in Luxembourg to attract European investors

Many Asian asset managers use Luxembourg as a fund location to attract European investors and invest in Asian assets.

Advising a Chinese leading payment institution on operation and compliance framework and providing assistance

PwC Luxembourg has a dedicated team in serving payment companies in Luxembourg to help them settle down in Luxembourg/in EU, to further explore and to achieve sustainable growth.

Your contacts

Xiaoyan Huang
China Business Leader,
Tax Specialist, Director
+ 352 621 333 820
xiaoyan.huang@pwc.lu
Wechat: huangxiaoyan460790

Michael Frigo
Tax Specialist,
Partner
+352 621 333 332
m.frigo@pwc.lu

Dannie Sun
China Business Executive,
Assurance Specialist,
Senior Manager
+352 621 336 376
dannie.s.sun@pwc.lu

Ou Tan
Tax Specialist,
Senior Associate
+352 621 334 702
ou.tan@pwc.lu

pwc.lu/china

PwC Luxembourg (www.pwc.lu) is the largest professional services firm in Luxembourg with over 3,800 people employed from 90 different countries. PwC Luxembourg provides audit, tax and advisory services including management consulting, transaction, financing and regulatory advice. The firm provides advice to a wide variety of clients from local and middle market entrepreneurs to large multinational companies operating from Luxembourg and the Greater Region. The firm helps its clients create the value they are looking for by contributing to the smooth operation of the capital markets and providing advice through an industry-focused approach.

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 149 countries with more than 370,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com and www.pwc.lu.

pwc