

Arendt UCITS webinar series 2025

Tax developments for UCITS, ManCos and their employees



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Inpatriate tax regime and other remuneration strategies



Remuneration opportunities in Luxembourg

A jurisdiction of choice

Recent developments for local employees

Luxembourg has recently adopted a series of legislative measures to enhance its attractiveness in the field of employees' remuneration.

These efforts are part of a broader strategy supported by all key stakeholders—government, employers, and employers' associations—who share a common objective to invest in talent, promote innovation, and strengthen the country's attractiveness.

While the new measures aim to improve talent retention and attract high-value profiles to relocate or remain in Luxembourg, further efforts are still needed to consolidate the country's position as a long-term talent hub.

Why Luxembourg is a strategic choice for international remuneration structure

Long-term incentive plans, including equity-based schemes, stock options, etc... benefit from a flexible and business-oriented legal framework in Luxembourg, allowing for seamless implementation in both domestic and cross-border contexts.

Luxembourg in-patriate tax regime

Goals and conditions

The regime was created in 2011 and governed by an administrative circular until the end of 2020. It was incorporated into the Luxembourg Income Tax Law (LIR) in 2021 under **Article 115, point 13b**. It was subsequently amended by the law of 11 December 2024, with effect **as from 1 January 2025**.

Objective

To enhance Luxembourg's ability to attract and retain highly qualified talent and profiles.

Employee-related conditions

- Must establish tax residency in Luxembourg (local rules).
- Must not have been tax resident in Luxembourg, nor have resided within 150 km of the Luxembourg border, nor have been subject to tax on professional income in Luxembourg during the five years preceding the start of employment.
- Must carry out the professional activity for which the exemption is granted for at least 75% of his working time.
- Must receive a fixed annual remuneration of at least EUR 75,000 before inclusion of cash and in-kind benefits.
- Must not replace one or more employees who were not eligible for the regime.

In the context of a secondment

- Must have at least 5 years of seniority within the group or 5 years of professional experience in the relevant sector.
- An employment relationship must exist between the sending company and the employee during the secondment period.
- The temporary assignment must be accompanied by a right to return to the sending entity at the end of the secondment period.
- A secondment agreement must be concluded between the sending company and the host (Luxembourg) entity.

In the context of a recruitment

The candidate must have acquired in-depth expertise in the relevant business sector.

Luxembourg inpatriate tax regime

Conditions and output

Employer-related conditions

The number of employees benefiting from the regime may not exceed 30% of the company's total workforce. Part-time employees, including inpatriates, are counted on a pro rata basis according to their working hours.

This condition does not apply to companies that have existed for less than ten years.

Mechanism

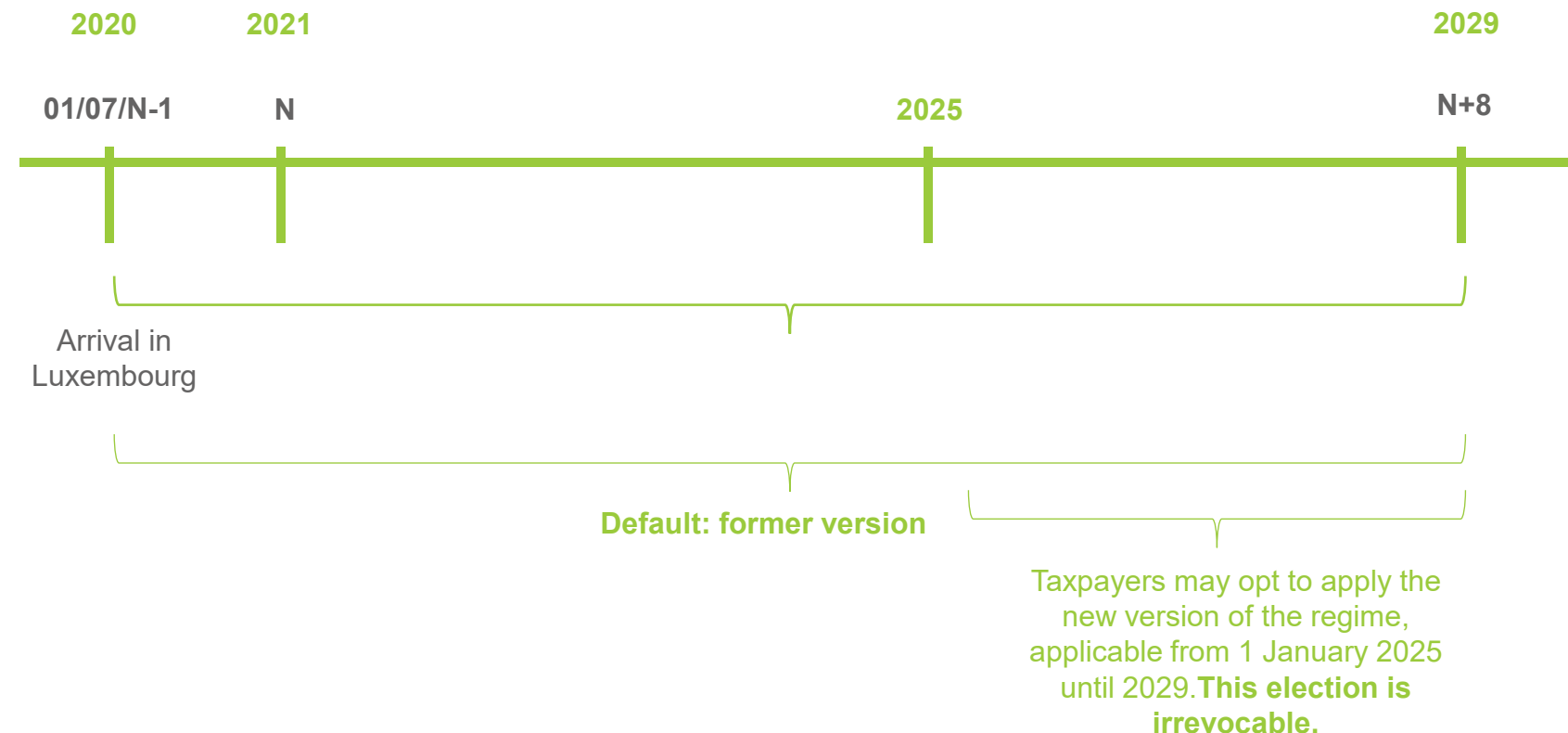
Fixed rate tax exemption system: the inpatriate will benefit from a 50% exemption on his/her annual remuneration, subject to a cap of EUR 400,000.

For the purposes of this regime, annual remuneration refers to the gross amount of annual salary, before inclusion of in-kind benefits and cash benefits that are fully or partially exempt under the Luxembourg Income Tax Law or a specific legal provision.

Luxembourg inpatriate tax regime

Transition and reporting

What about employees who arrived in previous years but could not benefit from the inpatriate tax regime due to practical constraints?



Reporting obligation

“By no later than 31 January of tax year N, the employer is required to submit to the competent RTS office in charge of employer audits a named list of employees who benefited from the inpatriate tax regime during the period from 1 January to 31 December of tax year N–1.”

The named list of taxpayers who have opted for the application of the inpatriate tax regime in its version applicable as from tax year 2025 — and for the 2025 tax year itself — must be submitted to the competent RTS office no later than 31 January 2026.

Illustration

Old version vs New version

	Amount	Deductions
Gross remuneration	250.000,00 €	
Inpatiate premium	22.000,00 €	
Housing	40.000,00 €	
School fees	25.000,00 €	
Total	337.000,00 €	
Social security contributions	-	17.488,56 €
Exemption inpatiate		11.000,00 €
Exemption housing		40.000,00 €
Exemption school fees		25.000,00 €
Total	-	76.000,00 €
Non deductible expenses		3.944,01 €
Taxable income	247.455,45 €	
Tax		85.980,00 €
Unemployment fund		6.806,00 €
Dependance insurance		4.607,21 €
Total tax	-	97.393,21 €
Net		222.118,23 €

	Amount	Deductions
Gross remuneration	337.000,00 €	
Social security contributions	-	17.488,56 €
Exemption	-	168.500,00 €
Non deductible expenses		8.744,28 €
Taxable income	159.755,72 €	
Tax		50.082,00 €
Unemployment fund		3.575,00 €
Dependance insurance		4.607,21 €
Total tax	-	58.264,21 €
Net		261.247,23 €

Other fiscal incentive for employees

Profit-sharing bonus (reshaped)

Employers may grant a profit-sharing bonus based on their positive financial results.

Under certain conditions, this bonus is 50% tax-exempt at the level of the employee.

The total amount that can be allocated to employees by an employer has increased to **7.5%** of the company's positive result from the previous financial year (Year N–1).

The individual benefit has increased to **30%** of the employee's annual gross remuneration for the tax year in which the bonus is paid.

Specific premiums

To further enhance overall attractiveness for a wide range of profiles, two additional measures have been introduced for young professionals:

(i) a premium of up to 75% of the annual bonus paid by the employer, granted at the employer's discretion to young employees holding their first permanent employment contract (subject to specific duration and remuneration criteria); and

(ii) a partial tax exemption of 25% on premiums paid by employers to help these young workers rent their main residence (subject to a double cap), also at the employer's discretion and dependent on the employee's annual gross remuneration.

LTI for Luxembourg employees

Long term incentive - Luxembourg tax treatment

- No specific tax regime: general tax principles apply.
- Subscription at fair market value: no immediate taxation upon acquisition of shares.
- Subscription below market value: the discount qualifies as a taxable benefit in kind (treated as salary, taxed at acquisition).
- Exit taxation: gain may qualify as capital gain.

Capital gain exemption for Luxembourg tax residents

- < 10% shareholding & > 6 months holding → fully exempt from income tax and social security.

Dividends taxation

- A 50% exemption applies to the gross amount of dividends distributed by an eligible entity to Luxembourg residents.

New measures announced by G. Roth, Minister of Finance

Introduction of a new Carried Interest regime

The Finance Minister announced the modernization of the carried interest regime, aligning it more closely with jurisdictions offering favorable tax treatment.

The aim is to make Luxembourg a more attractive jurisdiction for alternative investment fund managers.

Favorable tax regime for Stock Options

The Finance Minister also confirmed plans to introduce a favorable tax regime for stock options granted by start-ups.

This regime will be available to employees who are involved from the early stages of a start-up and who are partially compensated through equity in the company.

It was further announced that the capital gains taxation under this new stock-option regime will be highly competitive.

International remuneration structure

With its strong legal, tax and corporate framework, Luxembourg is a preferred jurisdiction for designing and implementing efficient, cross-border incentive plans within international groups. Main reasons we witness are:

Established ecosystem for equity and cash-based incentive schemes (HQs and holding structures)

Robust tax infrastructure

- Extensive network of double tax treaties
- Attractive participation exemption regime
- Tools to limit tax leakage and optimize repatriation flows

Corporate flexibility

- Variety of structuring vehicles
- Allows or tailored plan architecture based on population, geography and performance metrics

Labor law adaptability

Facilitates cross-border employment arrangements (assignments, split contracts, secondments)

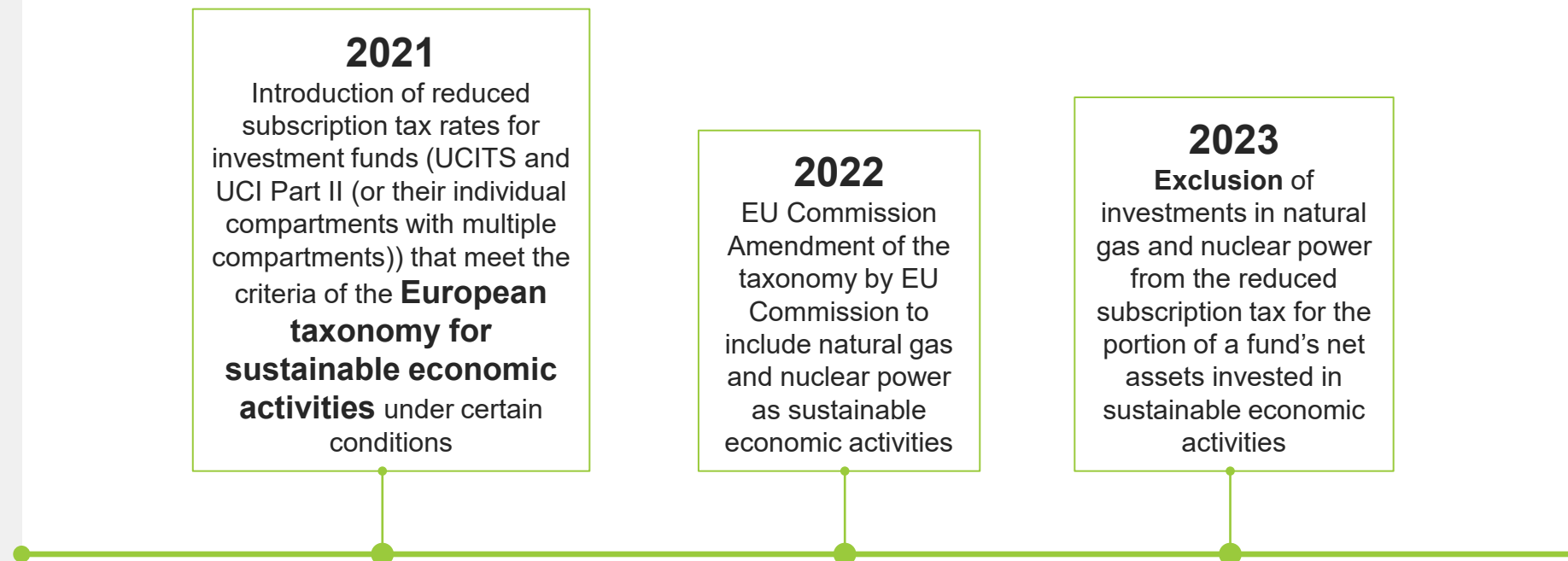
Cross-border know-how

- Deep expertise in international reward policies and global mobility
- Trusted jurisdiction for pan-European and global operations
- Strong institutional credibility, stable environment, and central location within the EU



Reduced subscription tax rates

EU Taxonomy (2023 budget law)



Percentage of net assets invested in sustainable economic activities (based on audit report)	Subscription tax rate applicable
At least 5%	0,04%
At least 20%	0,03%
At least 35%	0,02%
At least 50%	0,01%



Exemption from subscription tax

UCITS ETFs (law of 20 December 2024)



Addition of a new category of subscription tax exemption

- ☐ To benefit from the exemption, the UCITS must be traded throughout the day on at least one regulated market or multilateral trading facility on which at least one market maker intervenes to ensure that the price of its units or shares does not deviate significantly from its net asset value and, where applicable, its indicative net asset value
- ☐ The term “indicative net asset value” should be understood to mean the measurement of the intra-day value of the net asset value of a listed UCITS on the basis of the most up-to-date information in accordance with the definition contained in the ESMA Guidelines
- ☐ If there are several classes of units or shares that exist within the UCITS ETF or one of its sub-funds, the exemption only applies to the classes of units or shares that qualify as ETFs
- ☐ **Applicable from 1 January 2025**

(*) Law of 20 December 2024 (bill of law 8414).



Subscription tax returns

Circular N° 821
of 15 July 2024

New procedures (UCI, SIF, RAIF)

Additional data required, including:

- CSSF number of the Fund / compartment
- Fund of funds regime: corporate name and CSSF number of the target Fund / compartment

Impact for AIFs

AIFs whose official NAV is not yet known on the last day of the quarter, have the option to submit a provisional tax return using the last known official NAV

- Deadline for filing the tax return (20 day after the end of each quarter) is met
- A new tax return must be submitted to correct the reported data (no later than the deadline of the quarter during which the official NAV becomes available)



Tax authorities practice

Application of the fund of funds exemption

- Application of Article 175 of the law of 17 December 2010 (UCI law):
 - “Are exempt from the subscription tax:
 - (a) the value of the assets represented by units held in other UCIs, provided such units have already been subject to the subscription tax provided for in Article 174 or in Article 68 of the Law of 13 February 2007 on SIFs “or in Article 46 of the Law of 23 July 2016 on RAIFs”
- The AEDT considers that only the share of the net asset value of an investment fund invested in another investment fund that effectively pays subscription tax may benefit from the subscription tax exemption
- The exemption therefore does not cover investments in exempt funds (such as microfinance funds and ETFs)



Update on tax reclaim and FASTER





Withholding tax reclaims



German withholding tax (WHT) reclaims (*)

- ❑ **Background.** Until 2018, non-resident investment funds were subject to a 26.375% WHT on German dividends, which could be reduced to 15% through treaty benefits, while resident funds were exempt from WHT
- ❑ **Court decisions.** Rulings by the German Federal Fiscal Court in August 2024 and the Court of Justice of the European Union (CJEU) in June 2022 and April 2023, have favored foreign funds, highlighting the incompatibility of German WHT refund requirements with EU law
- ❑ **Key findings.** The exclusion of foreign funds from tax exemptions was found to violate the free movement of capital. This allows foreign funds to claim WHT refunds if they are comparable to German funds, with a 4-year limitation period for claims and interest on refunded amounts
- ❑ **Impact.** The August 2024 case is significant for pending WHT reclaims in Germany and claimants should prepare documentation to support their claims. Discrimination still affects investment funds with non-German investors

*BFH IR 01/20, IR 02/20



FASTER Directive*

IN A NUTSHELL

- Implementation of a common framework in the EU for **relief from excess taxes withheld at source** from **dividends on publicly traded shares** and from **interest on publicly traded bonds**

DIGITAL TAX RESIDENCE CERTIFICATE

- Introduction of a common **eTRC** that investors will be able to use in order to benefit from the fast-track procedures to obtain relief from withholding taxes

FAST-TRACK PROCEDURES

- **Relief at source system:** relevant tax rate will be applied directly at the time of payment of dividends or interest, based on tax treaty/domestic law provisions
- **Quick refund system:** refund of excess withholding tax will be requested and processed within a set deadline

OPTING OUT

- Possibility for Member States to opt out of the fast-track procedures if they offer a comprehensive relief-at-source system and their market capitalisation ratio is below 1.5% for four consecutive years

*Council Directive (EU) 2025/50 of 10 December 2024 on faster and safer relief of excess withholding taxes



FASTER Directive

EXCLUSIONS

- Member States may exclude, completely or partially, in certain circumstances, requests for withholding tax relief from the fast-track procedures, in order to perform further checks, with a view to preventing fraud

COLLECTIVE INVESTMENT UNDERTAKINGS

- Provisions on indirect investments ensure access to the fast-track procedures where the investor does not invest directly in securities but through a collective investment undertaking

DUE DILIGENCE

- Certified financial intermediaries requesting relief on behalf of a registered owner will need to carry out due diligence regarding the registered owner's eligibility to benefit from tax relief

CERTIFICATION & REPORTING

- Member States will establish national registers (linked to an EU portal) where financial intermediaries will have to register to be certified and therefore be able to seek tax relief for clients using the fast-track procedures
- Certain certified financial intermediaries will have to report information to the tax authorities to help them trace any potential tax fraud or abuse

TIMELINE

- Implementation into Member States' national law by 31 December 2028 / application from 1 January 2030



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Upcoming UCITS Webinars

**ETFs in Luxembourg: myths,
realities, and market
opportunities**

7 July 2025

**More episodes to be
announced**

STAY TUNED!

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