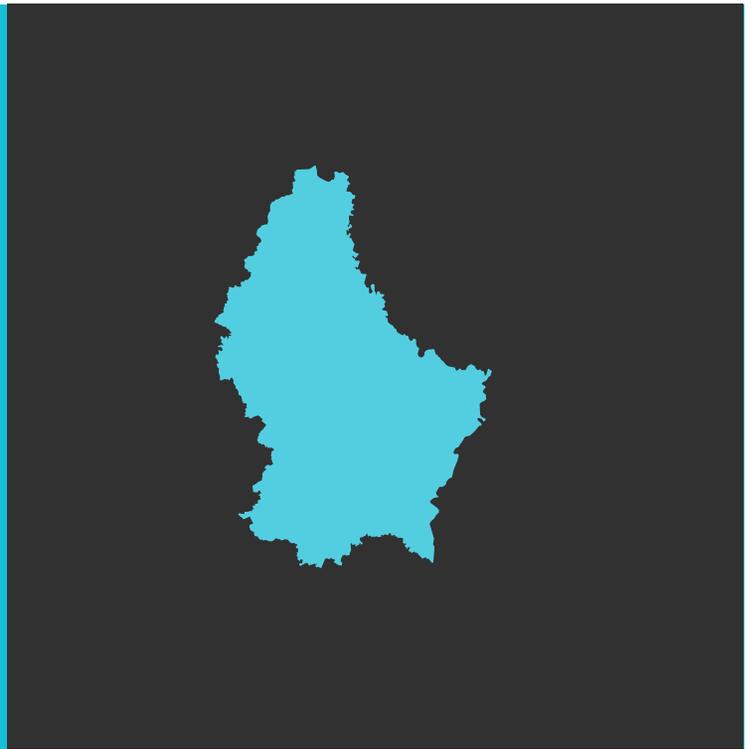


Country Guide

Luxembourg

Prepared by



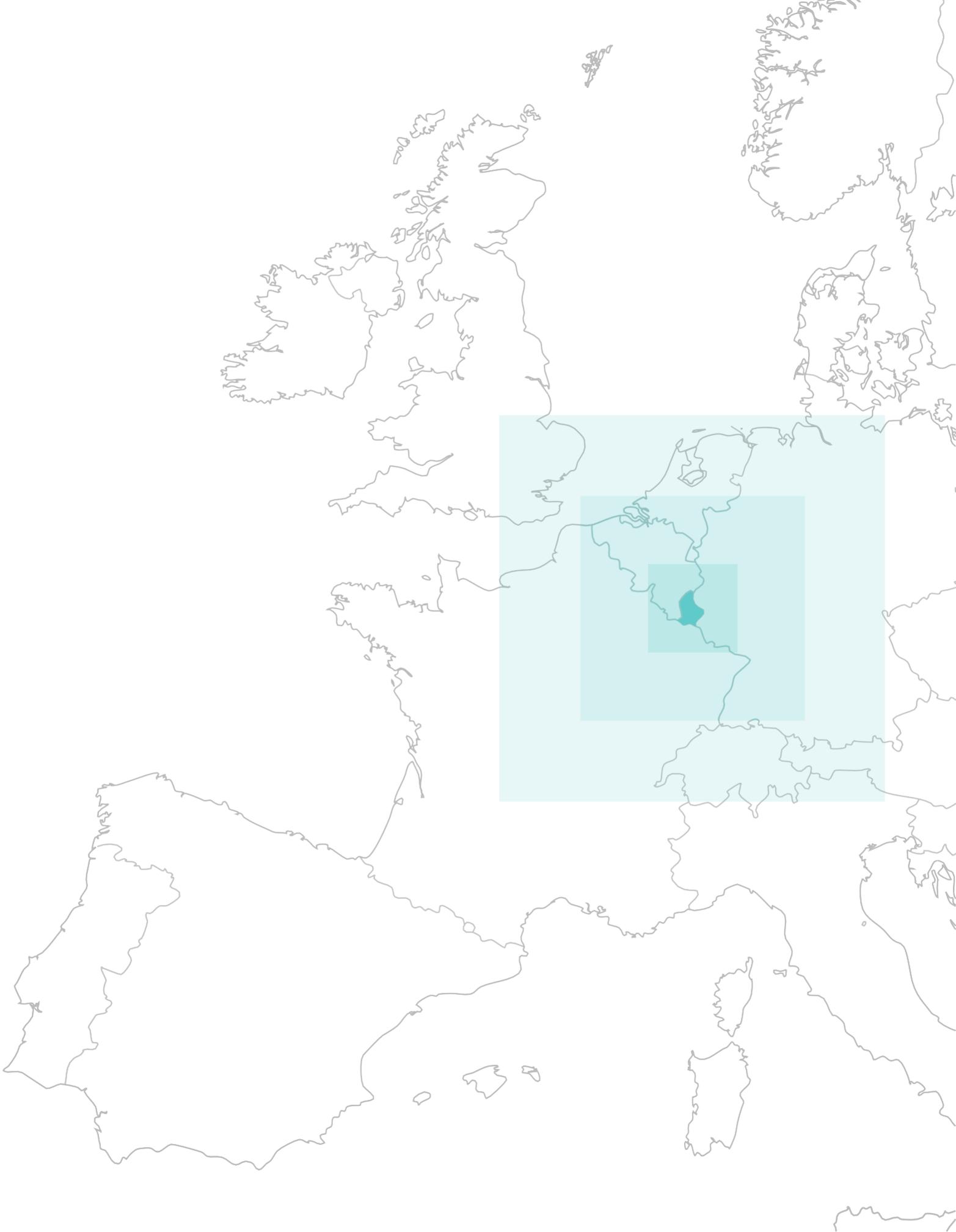
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doing business in **Luxembourg**







Introduction

Luxembourg offers unique opportunities to all business players. This document aims at presenting what we think you should know about Luxembourg when assessing the country / jurisdiction as a solution for business challenges. In addition, we would like to give you a realistic view of Luxembourg as a place to live and run a business.



A combination of stability and dynamism at the heart of Europe

Luxembourg's reputation as a stable and dynamic country is well deserved!

With an ideal geographic location between Belgium, France and Germany and with easy access to the Netherlands, Switzerland and the UK, Luxembourg is an extremely prosperous, politically stable and business-friendly country as well as being multilingual and multicultural. These factors have led to the remarkable growth of certain industries and companies in the country over the past few decades.

The economic indicators demonstrate the success and sustainability of Luxembourg and its economy :

- Triple AAA rating by main rating agencies;
- Stable public debt around 24% GDP, and under the OECD average range;¹
- High and sustained economic growth (3.7% expected in 2022);²
- Low unemployment rate – 4,8%;³
- Very competitive economy – 12th in the world⁴ and one of the highest worker productivity rates in Western Europe.⁵

Behind these figures lies a political and governmental framework which has always encouraged business in a sensible manner according to long-term objectives.

First and foremost, the country is a founding member of the EU and the Eurozone and a member of all major international organisations.

Luxembourg has also consistently remained accessible and open to meeting with businesses in order to respond to their needs and reduce the administrative burden and regulation on businesses in a pragmatic way. Its attractive corporate tax rates and reform of corporate law testify to this business-friendly approach.

In addition, Luxembourg is very forward looking and has heavily invested in the country's business infrastructure (e.g. high speed internet and data centres) and created numerous industry clusters (including an information and communication technology (ICT) cluster, an automotive cluster, a logistics cluster (around the Luxembourg airport and railway network, which is an integral part of the one belt / one road approach with Asia), as well as, most recently, a space cluster) fostering collaboration between the private and public sectors as well as supporting R&D based efforts.⁶

1. Sources: the Grand Duchy of Luxembourg state treasury (te.public.lu), 09/2022; OECD (2022), General government debt (indicator)

2. Source: OECD - Luxembourg Economic Snapshot - Economic Forecast Summary (oecd.org), 12/2021.

3. Source: STATEC and ADEM (via adem.public.lu), 09/2022.

4. Source: IMD World Competitiveness Yearbook (imd.org), 06/2021.

5. Source: Eurostat, Real labour productivity (appsso.eurostat.ec.europa.eu), 2004–21.

6. Including through the already highly ranked Luxembourg University, founded in 2003 and its Interdisciplinary Centre for Security, Reliability and Trust (SNT), as well as leading the EU High Performance Computing research project.

It encourages the creation of start-up companies and offers numerous forms of aid for specific investments by companies (such as for training, research and development projects and environmental protection).

Luxembourg has ensured that working conditions are good, which helps explain the country's remarkable social stability. The success of its consensus-based approach, involving dialogue with worker representative bodies and employers, is exemplified by the fact that the country has only had three days of general strike since 1945 and has one of the highest employment rates in Europe.

Its location and transport connections have encouraged trade and investment into the country. Its road and train links to the large and diversified economies of Belgium, France, and Germany mean that companies based in Luxembourg are closely connected to companies in neighbouring countries.

The country's airport provides access by plane to all of Europe's major capitals. The country has developed close economic ties with countries from all around the world, especially North America, the Middle East and Asia. Its workforce is multilingual, reflected by the fact that English, French and German are all common working languages, and multicultural with people from all over the world

working in the country. All this means that companies based in Luxembourg are by definition transnational or even "anational" in a way which is quite unique in Europe.

The country's long-standing economic success is demonstrated by the number of large local operators established in the country (BCEE founded in 1856, Luxembourg Stock Exchange in 1929, RTL Group in 1924, Cargolux, Clearstream, etc.).

Naturally, Luxembourg is very well known for its financial services (investment funds, private wealth management, insurance and a stock exchange which is a market leader for bond listing and innovative products). Other sectors have flourished alongside the financial services industry, however. For instance, Luxembourg is home to several innovative sectors which have been encouraged by the Luxembourg state, such as space satellite communications (with SES being one of the largest satellite operators in the world), space exploration (with recent initiatives for asteroid mining and lunar exploration, automotive components, e-commerce – Amazon, Paypal and others all have substantial activities in Luxembourg – IT and media).





A business-friendly legal framework

As the largest law firm in Luxembourg, we have contributed to many different legislative proposals over the years. At Arendt, we believe that Luxembourg's legal framework provides a unique opportunity in the form of a highly flexible environment for structuring and running a business.

So, if you are thinking about starting a business or trading in Luxembourg, what do you need to know about...

... Corporate law ?

Luxembourg corporate law is sophisticated, and offers one of the most flexible contract-based regimes in continental Europe.

Luxembourg law allows structuring arrangements to be implemented in many different ways. A prime example are the numerous possibilities that exist for the on-shoring of business assets and transactions to Luxembourg – most importantly on a cross-border basis, even beyond EU Member States. In particular, transfers of undertakings and business lines as well as mergers and partial demergers, whether domestic or cross-border, are easily implemented by universal transfer, without requiring the consent of individual creditors or contractors. This is permitted without sacrificing stakeholder protection.

As a current example, Luxembourg law will provide shareholders, creditors and employees with additional rights in the event of cross-border mergers, divisions and conversions between EU Member States as of early 2023.

Cross-border conversions and cross-border demergers by incorporation of new companies between EU Member States will also be made possible at EU level.

Luxembourg corporate lawyers are well versed in these international structuring arrangements. Furthermore, Luxembourg law is remarkably flexible in this area, and can be adapted to international requirements.

UK, US, French or German governance models can all be implemented within Luxembourg companies (e.g. voting and financial rights allocated to shares, as well as one or two-tier management structures with a collegiate body or individually led management set-ups). In addition, Luxembourg courts have traditionally avoided interfering in matters of company management, applying a form of business judgement rule.

Crucially, however, flexibility does not come at the expense of investor protection or legal certainty. Luxembourg law allows shareholders who hold at least 10% of the share capital of certain forms of companies to exercise certain information rights and shareholder action rights, but these rights are all balanced against the overarching principle of putting a company's business interests first.

In the near term, Luxembourg lawmakers intend to put in place a fully online registration process for Luxembourg companies, without the need for applicants or their representatives to appear in person before a Luxembourg notary.

In addition, there are plans to establish a national screening mechanism for foreign direct investments in Luxembourg in certain sectors (e.g. carve out of holding companies). The precise content and date of entry into force of these new rules have yet to be disclosed, but work on them is already underway.



... Taxation ?

Luxembourg has long offered businesses a stable and competitive tax environment.

Taxation concerns are now more critical than ever, against a backdrop of enormous change in recent years with the accelerated pace of OECD and EU developments in tax policy and practice (ATAD I, ATAD II, DAC, Unshell, Pillar I & II, etc.).

Luxembourg is fully committed to increasing tax transparency and fighting aggressive tax planning. This includes ensuring that new rules are implemented smoothly, in order to maintain a suitable tax environment for market participants.

Luxembourg has been a leading jurisdiction for financial services and international M&A transactions for many years. It is also a hub for centralising investments, traditionally known for its participation exemption regime enabling full exemption, as well as its extensive network of double tax treaties that grant withholding tax refunds and reductions for certain investment funds.

In addition, Luxembourg tax law provides for numerous VAT exemptions for financial services, and the country's corporate tax rates are well within the OECD average range (24.94% in 2022 in Luxembourg City).



... Employment law?

Luxembourg's employment law framework is particularly employer-friendly. What's more, in the country's fast-paced business environment, employment law is trending towards more innovative models and greater flexibility to meet employer and employee needs. Remote working, for example, has been given codified rules and made part of the "normal" Luxembourg business model. To retain and attract talent, Luxembourg also negotiated with border countries to allow more remote working days for cross-border commuters (without any negative tax impact on their salaries). Now there is a push for better work-life balance, with numerous bills under review that would grant more flexibility in the context of family, sport and culture, as well as employees' right to disconnect.

Luxembourg law also contains innovative and flexible solutions for multi-employer scenarios, like split payroll arrangements or global employment agreements (enabling several employers to hire one person, to divide up their total working time, and to have them relocate).

Collective employee relations are governed by a strong tradition of social peace and a dialogue-based philosophy encouraging social partners like unions to find mutually acceptable solutions to HR issues, instead of seeking to impose obligations.

In addition, employment costs are relatively low in Luxembourg compared to neighbouring and other highly developed countries, while staff possess a similar level of know-how. Social security contributions borne by the employer, for example, are among the lowest in Western Europe, at around 12.5%.⁷

Due to the high levels of immigration to Luxembourg, immigration laws are designed to attract foreign talent, with a specific tax regime for highly skilled expatriates recruited from abroad. The immigration authorities also fast-track highly skilled employees without EU citizenship who intend to relocate to Luxembourg.

Local employment authorities are generally open to discussion and solution-oriented, making HR management easier than in many other countries in Western Europe.



... Luxembourg courts as a choice of jurisdiction and Luxembourg law as governing law ?

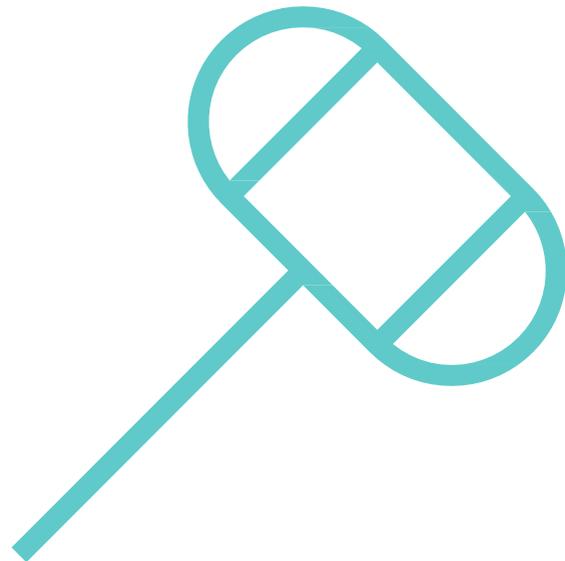
Commercial parties can choose Luxembourg as a jurisdiction with utmost confidence thanks to its legal and political stability.

Luxembourg law is an attractive choice as governing law for contracts dealing with financial assets, in particular due to the high level of protection afforded to pledges and transfers of title for security purposes over claims and financial instruments (shares, bonds, units, warrants, etc.). Luxembourg law has a special regime for these collateral arrangements, with simplified enforcement procedures that offer collateral takers exceptional protection in the event of the collateral giver's insolvency. For instance, all national and foreign insolvency law rules are suspended under this regime, ring-fencing collateral held in Luxembourg from the insolvency estate of the collateral giver.

In practice, this means that zero-hour rules, stay-of-action requirements and avoidance rules (e.g. hardening period rules) will be without effect on the collateral held in Luxembourg, thus enabling collateral takers to realise the collateral despite insolvency of the collateral giver. Similarly, netting agreements covering claims or financial instruments are enforceable irrespective of any national or foreign insolvency proceedings initiated against the defaulting party, attachments or other measures like criminal confiscation, and pose no obstacle to enforcement or to the parties' performance of their obligations thereunder.

Choosing Luxembourg law and jurisdiction guarantees that any legal disputes will be heard within a perennially stable legal system. What's more, the national courts are officially multilingual (French, German and Luxembourgish), while in practice documents may often be submitted in English. Luxembourg is home to a number of international law firms with expertise in commercial contracts and associated litigation, and its courts and lawyers have significant experience dealing with contracts governed by different legal systems.

Luxembourg is also an attractive location for arbitration. National courts take a favourable approach to the enforcement of arbitration agreements, and the country is a party to international arbitration conventions and numerous bilateral investment treaties. Luxembourg is a gateway for intra- and extra-EU investment flows offering a stable legal framework for foreign investors and investment treaty protection.





Luxembourg offers solutions for a number of industries

The positive features of Luxembourg described above benefit all economic sectors and actors, from start-ups to mature businesses, regulated or unregulated. More specifically, Luxembourg offers tried-and-true solutions for the financial services industry ensuring that operators enjoy access to the EU market.

Credit institutions

Luxembourg is an attractive market for banks wishing to offer cross-border services from Luxembourg to the rest of Europe. Foreign credit institutions can set up operations in Luxembourg under one of the following models:

- The Luxembourg subsidiary model: the non-EU credit institution creates and holds a separate legal entity, which it has authorised by the European Central Bank. The credit institution thereby gains access to the universal Luxembourgish banking licence and the EU banking passport. This process requires coordination between the CSSF and the European Central Bank.
- The Luxembourg branch model: the credit institution sets up a branch office in Luxembourg, which is part of the same entity despite being physically removed from the head office. The branch has no separate legal personality, but directly performs whole and/or partial transactions related to the credit institution's activity. A branch of a foreign non-EU bank needs to be registered in the Luxembourg trade and companies register and authorised by the CSSF. Unlike a subsidiary, the branch will not be eligible for an EU banking passport – although the situation may soon evolve with respect to institutional clients. Thanks to the freedom of establishment, EU credit institutions can set up branches easily under EU passporting rules.

Entities that do not wish to create a permanent establishment in Luxembourg are also welcome on the market. Third-country entities have a number of options for providing services to Luxembourg (some of which require prior registration with the CSSF).



Insurance companies

With approximately 100 insurance companies and 200 reinsurance companies domiciled in Luxembourg, the Grand Duchy is recognised as a major European centre for the insurance and reinsurance industry (both in the life and non-life sector). In a changing, increasingly globalised environment, more and more EU and other international groups are opting to establish insurance operations in Luxembourg, either through a subsidiary or by basing their European hub here.

In this context, Luxembourg is primarily chosen for its sector-specific expertise. In particular, the insurance sector know-how prevalent in Luxembourg permits doing business within a complex cross-border ambit and international environment, with all the opportunities this creates.

Over the years Luxembourg's insurance regulator, the Commissariat aux Assurances, has developed close ties with the industry and remains highly attentive to the needs and challenges of insurance and reinsurance companies.

Asset management

Luxembourg is Europe's most important investment fund domicile, and the second-largest fund centre in the world after the US. This success has been made possible by the country's elaborate fund structuring toolbox enhanced by specific laws and regulations, an accessible regulator specialised in the fund industry and a high degree of political and fiscal stability. Today, Luxembourg offers a unique concentration of investment fund experts versed in all aspects of product development, administration and distribution.

UCITS

Today, the Luxembourg UCITS is a strong global brand. The Grand Duchy's decision to be the first country to implement the UCITS Directive fast-tracked it to becoming the leading domicile for promoters pursuing cross-border investment initiatives. Through smart and speedy implementation of the evolving UCITS legal framework, Luxembourg has further enhanced its competitive edge and developed a highly professional and stable fund ecosystem with a multilingual workforce. Today, the Grand Duchy is seen as the global gateway for UCITS.

Luxembourg is the most competitive jurisdiction to set up funds.

Alternative strategies

Drawing on the success of its investment fund industry and clustered competencies in the structuring of international private equity transactions, Luxembourg has been able to position itself as the leading European domicile for alternative investment funds (AIFs) as well. Following the swift development of the country's AIF servicing infrastructure, and thanks to its steadily evolving fund structuring toolbox (whose legal structuring solutions may include special purpose vehicles), Luxembourg has become the EU's foremost fund jurisdiction for domiciling AIFs together with their acquisition vehicles. No other EU or off-shore domicile can claim comparable track records and industry compatibility within the rapidly evolving international legal, regulatory and tax environment.

Looking ahead, Luxembourg is proactively engaging in the review of the AIFMD, the EU framework for alternative investment fund managers.

The ELTIF label

The Regulation on European Long-Term Investment Funds (ELTIFs) intends to combine certain characteristics of UCITS and AIFs. Due to this and the wide array of asset classes it permits, ELTIFs are becoming increasingly attractive for asset managers worldwide. Indeed, this combination of features paired with the Luxembourg fund structuring toolbox offering is fast becoming the go-to option for investment structures in the private equity and infrastructure sector, as well as in the private debt environment.

Luxembourg was proactively engaged in the review of the ELTIF Regulation.



Asset managers

Luxembourg is an attractive hub for management companies with UCITS, AIFM or dual licences, offering structuring options to accommodate the needs of EU and non-EU players alike. The dual licence allowing for the management of both UCITS and AIFs helps streamline operations and reduce costs. In 2018, Luxembourg once again assumed the role of first mover by proactively consolidating its regulatory practice on operational substance and governance for asset managers, providing welcome clarity on a key issue in investment structure set-up.

Looking ahead, Luxembourg is proactively engaging in the review of the AIFM Directive and the UCITS Directive.

Sustainable and responsible investing

In recent years, financial markets have developed instruments specifically designed to raise money for sustainability goals. Luxembourg has been at the forefront of this development from its outset. The country's financial centre has built up an ecosystem that is uniquely suited to raising international capital for responsible investment. Today, Luxembourg is the primary centre for listing green bonds and the leading European domicile for sustainable and responsible investment funds.



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Luxembourg: a friendly and vibrant place to live

Anyone who says that
Luxembourg is boring has
clearly never lived there!

The country's population continues to expand year on year, largely as a result of high levels of immigration. Enticed by a great standard of living and a great location in the heart of Western Europe, many people are deciding to make Luxembourg their home, and who can blame them? A staggering 46% of the population comes from 170 countries, and this level is set to exceed 50% in the next few years.

It has the highest GDP per capita in Europe, relatively low personal income tax and limited property tax. Luxembourg enjoys one of the highest standards of living in the world, according to the OECD.

Education

While the social security system is extremely efficient - with ample medical cover, child benefits and a generous state pension - the education system provides a structured set of quality options to suit every need. You will find a diverse range of local schools, including 6 primary schools and 7 secondary schools offering English-language education. Luxembourg also houses 4 highly-respected international schools: International School of Luxembourg (International Baccalaureate), European School (European Baccalaureate), St George's (A-levels) and Waldorf School (International Baccalaureate also offered).





Leisure

An extensive range of cultural activities cater to all generations and interests, including great live music venues that attract world-class international performers. The Philharmonie offers a comprehensive calendar of classical acts while the Rockhal and Atelier provide platforms for live rock and pop performances, welcoming global superstars, up and coming artists and local talent. Luxembourg houses some outstanding art galleries showcasing stellar expositions. The Mudam (a museum of modern art designed by I.M. Pei), is worthy of a regular visit, as much for its award-winning architecture as for its visually compelling art collections and installations. We could go on to mention Luxembourg's 11 Michelin-starred restaurants, or its plethora of family-friendly eateries.

Residence

There is plenty of residential accommodation available, both in Luxembourg City and in the surrounding towns and villages. In fact, a consistent and sustained rise in property prices make this a particularly safe and efficient location in which to invest in property, should you be seeking an alternative to rental.

Open horizons

Luxembourg's central location, excellent public infrastructure and efficient transport links make it really easy to travel throughout Europe. You can, for example, hop on a TGV and be in Paris in 2 hours, or take one of a dozen daily flights to London. There really is no excuse for sitting still - Luxembourg's natural landscapes, woodlands and vineyards are breathtakingly beautiful, while its vibrant capital leads the world in terms of personal safety and low crime levels.



Diversity

There is no doubt that Luxembourg has a truly international outlook, and rightfully prides itself on the warmth of welcome it extends to all newly-arrived professionals and their families. Boasting a large international community, this multi-cultural location employs a variety of different languages, which takes much of the stress out of working and communicating in a foreign country.

At Arendt, we are a perfect reflection of this diversity. Across all levels of the firm, you will run into expatriates who have been charmed by the quality of life that Luxembourg has to offer. Many of us have settled down with our families on a long-term basis, as it really is a tremendous place to raise children, and offers all the advantages you would expect from an international, capital city.

And so much more!

There are a multitude of compelling reasons to set up business here in Luxembourg and we guarantee that your employees, their families and friends will find living in Luxembourg a delight.



About Arendt & Medernach

Arendt & Medernach is the leading independent business law firm in Luxembourg. The firm's international team of 400 legal professionals represents clients in all areas of Luxembourg business law, with representative offices in Hong Kong, London, New York and Paris.

Our service to clients is differentiated by the end to end specialist advice we offer, covering all legal, regulatory, taxation and advisory aspects of doing business in Luxembourg.

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