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BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

With a GDP per capita of USD 131,780 (IMF, 2021), Luxembourgers are the wealthiest consumers in the world. Nonetheless, the growth in economic activity has slowed down in recent years and the gap between Luxembourgian and European consumers has narrowed. The former remains by far the biggest spender in the EU, however, consumption increases at a slower rate than in the rest of the Union: the Luxembourgian spent on average 35% more than their European counterpart in 2019 as opposed to 40% more in 2014 (Eurostat, latest data available).

The Luxembourgian population is more dynamic than the EU average as many European citizens immigrate to the country to enjoy high living standards and income levels. The median age is 39.5 years (EU average 43.9 years) (Eurostat, 2020) and the population growth rate rose to 1.94% in 2019 (EU average 0.16%) (World Bank, latest data available).

Consumer Behaviour

Luxembourgian consumer attaches great importance to product quality, which is a determining factor for purchase, ahead of seller's quality of service and price. They also value the brand's reputation and the ergonomic design of durable consumer products. Nonetheless, they are sensitive to promotional offers when it comes to products of daily consumption.

The consumer confidence index, which is traditionally high, had been on the decline since early 2018 as households' expectations about the general economic situation in Luxembourg had deteriorated. However, ever since mid-2020 it started increasing again.

The Luxembourgian consumer has shown less interest in e-commerce than their neighbours as the share of online shopping in enterprises' turnover stood at 15% in 2020, as opposed to 31% in Belgium, 44% in Ireland and 23% in France (Eurostat). Nevertheless, the Government Council of Luxembourg has decided to launch a nationwide online shopping platform to encourage local wholesalers that do not engage in any e-commerce activity to go online.

Consumers Associations

[The Luxembourg Consumers Union \(ULC\)](#)
[European Consumer Center of Luxembourg](#)

IMPORTING & DISTRIBUTING

Import Procedures

As part of the "SAFE" standards set forth by the World Customs Organization (WCO), the European Union has set up a new system of import controls, the "Import Control System" (ICS), which aims to secure the flow of goods at the time of their entry into the customs territory of the EU. This control system, part of the Community Programme eCustom, has been in effect since January 1, 2011. Since then, operators are required to pass an Entry Summary Declaration (ENS) to the customs of the country of entry, prior to the introduction of goods into the customs territory of the European Union.

The official model for written declarations to customs is the Single Administrative Document (SAD). The SAD describes goods and their movement around the world and is essential for trade outside the EU, or of non-EU goods. Goods brought into the EU customs territory are, from the time of their entry, subject to customs supervision until customs formalities are completed.

Since July 1, 2009, all companies established outside of the EU are required to have an EORI number if they wish to lodge a customs declaration or an Entry/Exit Summary declaration.

The TARIC (Tarif Intégré de la Communauté), is available to help determine if a license is required for a particular product. Moreover, the European Commission maintains an export helpdesk with information on import restrictions of various products.

To get further information on customs policies in the European Union, please visit the [European Commission](#) page on Customs Union.

The [website of the Luxembourg Customs Administration](#) (in French) provides more detailed information on the import process and requirements.

Distribution market players

The revenue in the Food & Beverages segment is projected to reach US\$51m in 2021. It is expected to show an annual growth rate (CAGR 2021-2025) of 3.09%, resulting in a projected market volume of US\$58m by 2025. (Statistica) The mass retail in Luxembourg is dominated by 4 major groups:

- the Luxembourgish [Cactus](#) is the leader in the distribution sector in Luxembourg and owns the following brands: Cactus Supermarché, Cactus Marché, Cactus Shoppi and Cactus Hobbi
- the [Louis Delhaize Group](#), which is the 2nd largest player in the country's mass retail. It includes brands such as [Cora](#).
- the [Auchan group](#), with 1 hypermarket and four drive-through supermarkets.
- German discount supermarket chains [Aldi](#) and [Lidl](#)

These groups share a market of 626,100 inhabitants. (National Institute of Statistics and Economic Studies of the Grand Duchy of Luxembourg, 2020)

OPERATING A BUSINESS

Type of companies

Private Limited Company (S.A.R.L.)

Number of partners: Minimum 1 partners; maximum 40 partners. NB: 1 member for a sole proprietorship.

Capital (max/min): EUR 12,000, totally subscribed.

Shareholders and liability: Liability is limited to the amount contributed.

Public Limited Company (S.A.)

Number of partners: Minimum two natural or legal persons, without restriction on the number of partners.

Capital (max/min): EUR 30,000 with 1/4 released at the creation.

Shareholders and liability: Liability is limited to the amount contributed.

General Partnership (SENC)

Number of partners: One or more partners, no upper limit.

Capital (max/min): No minimum capital.

Shareholders and liability: Partners' liability is joint and unlimited on obligations and debts of the company.

Limited Partnership (SECS)

Number of partners: Minimum 2 with no limitation on the number of partners.

Two types of partners: active partners and sleeping partners.

Capital (max/min): No minimum capital.

Shareholders and liability: Active partners' liability is joint and several. Liability of sleeping partners is limited to the amount contributed.

Cooperative Company

Number of partners: Minimum 7 partners.

Capital (max/min): No minimum capital.

Shareholders and liability: Partners' liability is joint and several or divided, unlimited or limited to amount contributed depending on the status.

Setting Up a Company	Luxembourg	OECD
Procedures (number)	5.0	5.2
Time (days)	16.5	9.5

Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage

In 2021, the monthly minimum wage in Luxembourg is EUR 2 202, according to Eurostat.

Average Wage

In 2019, the average salary in Luxembourg is €58,520 a year (OECD, latest available data).

Social Contributions

Social Security Contributions Paid By Employers:

The employer's social security contribution rate is between 12.01% and 15.06%:

- pension: 8%
- sickness: 2.8 - 3.05%
- accident insurance: 0.675% - 1.125%

- employers' mutual insurance: 0.53% - 2.88%
- maximum annual income base subject to contributions: 132,115.80 euros (index 834.76).

Social Security Contributions Paid By Employees:

The employee's part of social security contributions ranges between 12.20% and 12.45%.

Employee's part (capped):

- pension: 8 %
- sickness: 2.8 - 3.05 %
- maximum annual income basis subject to contributions: EUR 132,115.80 (index 834.76).

Non-tax-deductible contributions (uncapped):

- Dependence insurance: 1.4 % minus a deduction of EUR535.50 per month on gross salary. No ceiling is applicable.

Intellectual Property

National Organisations

The body in charge of the protection of intellectual property in Luxembourg is the [Service of the Intellectual property](#) of the [Ministry of the Economy](#).

Concerning industrial property, Luxembourg signed the [Paris Convention](#). The [Luxembourg Institute of Intellectual Property](#) was founded in 2014.

Concerning trademarks, a single recording allows to protect these at the same time in Luxembourg, in Belgium and in the Netherlands.

International Membership

[Signatory to the Paris Convention](#) For the Protection of Intellectual Property

TAX RATES

Consumption Taxes

Nature of the Tax

VAT (Value-Added Tax)

Tax Rate

17%

Reduced Tax Rate

A 3% rate applies to food for human consumption, excluding alcohol; agricultural products; books, newspapers and periodicals; shoes and clothes for children under age 14; sale of domestic accommodation; pharmaceutical

products; restaurant services, excluding alcohol; water; transport of persons; admission to cultural events. An 8% rate applies to the supply of gas and electricity, bikes, hairdressing, cleaning of private accommodation, plants and other floriculture products.

A 14% rate applies to wine of grapes with a concentration of alcohol up to 13 grades; solid mineral combustibles, mineral oil and wood used as fuel; advertising brochures and other prints; steam, heating and cooling; custody and management of securities; management of credits and credit guarantees by an entity other than the entity that granted the credit.

Some items are exempt from VAT, including real estate transactions, supplies of postage and fiscal stamps at face value, services of doctors and dentists, finance, insurance, cultural and sporting services, welfare services, education.

Other Consumption Taxes

Excise duties are levied on certain products, notably on wine and spirit, tobacco, electricity, and mineral oils. More detailed information on excise duties is available on the [European Commission](#) website.

A CO2 tax also applies.

Corporate Taxes

Company Tax

Tax Rate For Foreign Companies

Luxembourg companies are taxed on their worldwide income while non-resident companies are taxed only on their Luxembourg-source income.

Capital Gains Taxation

Capital gains and losses are treated as ordinary income and are subject to corporate tax. The taxation of gains on certain fixed assets could be deferred where the proceeds are used to acquire replacement items.

Capital gains from the sale of shares may be exempt from tax if the payee maintains or undertakes to maintain their participation, directly or indirectly, for an uninterrupted period of at least 12 months and that the participation does not fall below 10% or a purchase price of EUR 6 million during this period.

Main Allowable Deductions and Tax Credits

Depreciation of tangible and intangible assets is tax-deductible. Goodwill can be amortised over its useful life, or if it cannot be measured otherwise, the amortisation period is limited to ten years.

Start-up expenses can be charged directly to the profit and loss account of the year in which they are incurred, or amortised over a period of five years.

Interest charges are deductible as long as they are consistent with the arm's-length principle. Bad debts are generally deductible.

Donations to charitable organisations are deductible up to 20% of net income or EUR 1 million (the minimum amount being EUR 120). The excess amount of donation can be deducted over two years.

Compensation payments and severance pay are deductible up to EUR 300,000.

Fines and penalties are not deductible. Taxes, with the exception of corporation tax, municipal tax and wealth tax are generally deductible.

Tax losses incurred through the years ending on 31 December 2016 may be carried forward indefinitely. Losses incurred after this date may be carried forward up to 17 years. The carryback of losses is not permitted.

Payments to foreign subsidiaries (royalties, management fees, interest paid by a Luxembourg company to foreign subsidiaries) are deductible as long as they respect the arm's-length principle. Interest or royalties due to related parties as of 1 March 2021 are not tax deductible if their recipients are corporate entities established in

countries that are considered 'non-cooperative' for tax purposes (limitations apply).

Other Corporate Taxes

Luxembourg resident companies and subsidiaries of foreign companies are subject to wealth tax. The rate is 0.5% for a taxable base up to EUR 500 million. For a taxable base exceeding EUR 500 million, companies are required to pay a lump-sum fee of EUR 2.5 million and 0.05% of the tax base in excess of EUR 500 million, without any limit. Companies with their head office or central office of administration in Luxembourg are subject to the minimum wealth tax (with amounts varying between EUR 535 and EUR 32,100 according to the total gross assets).

A subscription tax is levied on transferable securities (a registration fee that would give rise to the transfer of securities). The rate is 0.05% for mutual funds based on net assets at the end of the quarter. The rate is reduced to 0.01% for specialised investment funds and reserved alternative investment funds. Graduated rate reductions apply for funds that invest in "sustainable" investments.

Certain deeds (establishment, amendment of the articles of association, transfer of seat to Luxembourg) give rise to a lump-sum registration fee of EUR 75. A proportional fee is also payable if the deed involves a contribution of immovable property or a contribution of movable assets against payment.

The sale or transfer of real estate is subject to a registration fee of 7%. A municipal surcharge of 3% applies to real estate transfers in the City of Luxembourg.

The contribution of real estate in exchange for securities is subject to a registration fee of 1.1%. A municipal surcharge of 0.3% applies to real estate transfers in the City of Luxembourg.

An annual real estate tax is levied by municipalities at rates varying between 0.7% and 1% of the unitary value of the property (and is multiplied by a coefficient based on the type of property and municipality - the coefficient is 750% for commercial property in Luxembourg City).

As of 2021, a new Real Estate Levy ("*prélèvement immobilier*") applies to certain investment fund vehicles, at a rate of 20%.

The municipal business tax on income is levied at rates between 6.75% and 10.5%, depending on the municipality (calculated from the multiplication of the tax base by the municipal rate).

The rates of social security contributions paid by the employer vary between 12.29% and 14.92% and are capped at an annual ceiling of EUR 135,417.24 for 2022.

Other Domestic Resources

[Consult Doing Business Website](#), to obtain a summary of the taxes and mandatory contributions.

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

[List of countries that have a tax agreement with Luxembourg](#)

Withholding Taxes

Dividends: 0 (paid to a qualifying company under the EU parent-subsidiary directive)/15%; Interest: 0%/20% (interest paid by a paying agent based in Luxembourg to Luxembourg tax resident individual); Royalties: 0%

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