Grant Thornton

TAX TIPS

# Reporting of Taxable Income in a Foreign Currency

Luxembourg companies that prepare their annual accounts in a foreign currency may be exposed to foreign exchange (FX) risk for tax purposes. Such risk could be mitigated by submitting a timely request to report the taxable income in this foreign currency.

## Mitigate FX risk exposure

While a Luxembourg company can prepare its annual accounts in a foreign currency, its tax returns must normally be filed in euros (EUR).

For tax purposes, long-terms assets and liabilities must be converted into EUR using the historical FX rate, while other items must be converted using the year-end FX rate. The use of different exchange rates can expose the company to foreign exchange risk, potentially leading to the taxation of FX gains.

Based on the circular issued by the Luxembourg tax authorities (LTA) on 6 July 2018, a Luxembourg company may request to report its taxable income in a foreign currency to mitigate FX risk exposure. Under this option, all assets and liabilities will be converted from the foreign currency to EUR using the same FX rate when preparing tax returns. As a result, FX rate fluctuations do not impact the company's taxable income.

Specific rules also exist for partnerships to mitigate FX risk exposure, even though their tax returns must still be filed in EUR.

## Conditions and deadlines

Luxembourg companies (e.g., S.A., S.à r.l., S.C.A., etc.) may opt to report their taxable income in a foreign currency, also referred to as a "functional currency", provided that the following elements are denominated in the same foreign currency:

- Share capital
- Accounting records
- Annual accounts

A written request to use the functional currency must be submitted to the LTA within the following deadlines:

- For existing companies: No later than three months before the end of the tax year in which the company intends to apply the option (e.g., companies with a financial year ending on 31 December must file the request by 30 September 2025 to apply it from the 2025 tax year).
- For newly incorporated companies: Before the end of their first tax year.

We recommend applying this option from the company's year of incorporation or the first year in which its accounts are prepared in a foreign currency. Otherwise, a transitional tax balance sheet with complex and specific requirements may be required.

## Practical aspects

Once approved by the LTA, corporate income tax (CIT), municipal business tax (MBT) and net wealth tax (NWT) returns (i.e. form 500) must be completed in the applicable foreign currency. This remains applicable as long as the company's share capital is denominated in that foreign currency.

The taxable basis for CIT, MBT and NWT (i.e. unitary value) is converted into EUR using either the year-end or average FX rate, as published by the European Central Bank. The choice between these two rates is irrevocable once selected.

Although tax returns are prepared in the foreign currency, related tax assessments and tax liabilities will continue to be issued and settled in EUR.

**Online Tax Calendar**

Visit www.taxcalendar.lu to create your personnalised calendar!

## For additional information, you may contact:


**Jean-Nicolas Bourtembourg**
Partner, Head of Tax / Transfer Pricing
E jean-nicolas.bourtembourg@lu.gt.com

**Mélina Rondeux**
Partner, International Tax
E melina.rondeux@lu.gt.com

**Sophie Dabée**
Senior Manager, International Tax
E sophie.dabee@lu.gt.com