TAX TIPS

Luxembourg Tax Unity Regime

The tax unity regime allows a group of Luxembourg companies to be taxed as a single taxpayer on a consolidated basis. This regime enables the offsetting of profits and losses among group members, potentially reducing the group's overall tax burden.

How does it work?

The tax unity regime, as provided by Article 164bis of the Luxembourg Income Tax Law, allows a group of qualifying Luxembourg companies to be treated as a single taxpayer for corporate income tax (CIT) and municipal business tax (MBT) purposes. Within the tax group, profits and losses are consolidated, enabling losses from one entity to offset profits from another.

Only the integrating company, often referred to as the head of the tax group, is liable for CIT and MBT, which are calculated based on the consolidated taxable result.

Since tax losses generated before entering the tax unity are subject to stricter limitations on their use, it is generally advisable to apply for the regime as early as possible.

Net wealth tax (NWT) is excluded from the scope of the tax unity, so each group member remains individually liable for it. However, the existence of a tax unity may affect the calculation of both the minimum NWT and the reduction of the normal NWT.

Key conditions

Eligible entities

The regime is open to fully taxable Luxembourg resident capital companies (such as S.A., S.à r.l., and S.C.A.), as well as Luxembourg permanent establishments (PEs) of a non-resident capital company that is fully taxable to a tax corresponding to the CIT. Sister companies may also form a horizontal tax unity, provided they are held by a qualifying Luxembourg resident company, a Luxembourg PE (under certain conditions), or a capital company resident in an EEA country and fully taxable to a tax corresponding to CIT.

Ownership threshold

The parent company must hold, directly or indirectly, at least 95% (or 75% under strict conditions) of the subsidiary's capital from the first day of the fiscal year for which the tax unity is requested.

Same accounting year

All entities within the tax unity must have the same fiscal year, with identical opening and closing accounting dates.

Minimum commitment period

The tax unity must be maintained for at least five years. If the regime is terminated earlier, the tax unity is retroactively cancelled, as if it had never applied.

Practical aspects

To benefit from the tax unity regime, all participating companies must jointly submit a written request to the Luxembourg tax authorities. This request must be filed before the end of the first financial year for which the tax unity is intended to apply (for example, by 31 December 2025 for an application starting in the 2025 tax year for companies with a calendar accounting year).

During the tax unity period, each member company must continue to file its own tax return. However, the taxable results are consolidated and reported in the tax return of the integrating company.

While the tax unity regime offers significant advantages, it is essential to assess its tax implications at an early stage, particularly in respect of interest deduction limitation rules, the treatment of pre-existing losses, and NWT considerations.

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