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Luxembourg: Trends and Developments

Romain Tiffon and Marie Bentley
ATOZ Tax Advisers

Trends and Developments

Contributed by:

Romain Tiffon and Marie Bentley
ATOZ Tax Advisers

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Authors



Romain Tiffon is a partner in the international & corporate tax department at ATOZ Tax Advisers. A tax professional since 2006, Romain has experience in structuring pan-European alternative investment

funds across all asset classes, as well as co-ordinating tax structuring advice and implementation for a wide range of institutional investors. He also has extensive experience in structured finance, M&A transactions, and sovereign wealth funds, and is currently co-heading ATOZ's technological initiatives, via ATOZ Solutions.



Marie Bentley is ATOZ's Chief Knowledge Officer, having joined the firm in 2017. Marie has worked as a tax lawyer for over ten years, qualified as a Belgian lawyer on the Brussels Bar in 2008 and was admitted to

practice in Luxembourg by the Luxembourg Bar in 2013, practising until 2017. Over the years, Marie has gained extensive experience in Luxembourg, Belgian and international tax law, both in advisory and litigation. She was notably involved in international tax projects focusing on the private equity sector, M&A and HNWIs. Marie is the author of numerous articles on tax-related topics published in various legal journals. She has regularly spoken at legal and financial colloquiums.

ATOZ Tax Advisers

Aerogolf Center
1B Heienhaff
L-1736 Senningerberg
Luxembourg

Tel: +352 26 940
Fax: +352 2694 0300
Email: info@atoz.lu
Web: www.atoz.lu

ATOZ
TAX ADVISERS LUXEMBOURG

The Latest in Private Wealth in Luxembourg in 2025

Luxembourg continues to evolve as a premier jurisdiction for private wealth management, driven by legislative reforms, tax incentives, and regulatory clarity. Luxembourg's Minister of Finance, Gilles Roth, recently emphasised the importance of seizing current geopolitical and technological shifts as opportunities to enhance Luxembourg's competitiveness. In this respect, the authors can highlight several reforms initiated over the past year, including the modernisation of the impatriate tax regime (allowing a 50% tax exemption on gross annual salaries up to EUR400,000), the improvement of the profit-sharing regime (prime participative), and the introduction of an exemption from subscription tax for active ETFs (Exchange-Traded Funds). The authors can also note a 1% reduction in the corporate tax rate and significant legislative updates such as the blockchain law and the transposition of the MiCA Directive, which provides a flexible regulatory framework for cryptocurrencies.

Additionally, a draft law has been submitted to introduce a new start-up tax credit. Furthermore, a new stock option regime for start-up employees, with a competitive capital gains tax treatment to support early stage innovation and investment, is expected to be submitted to parliament before year-end.

Luxembourg's Minister of Finance also recently unveiled a series of tax-focused initiatives aimed at reinforcing Luxembourg's competitiveness in the financial sector. Central to these measures is the modification of the carried interest regime designed to attract more fund managers to Luxembourg, responding to long-standing industry demands and positioning the jurisdiction favourably against developments in the UK and southern Europe.

Complementing this, the Luxembourg government has finally announced the launch of a government-backed programme supporting start-ups that develop digital solutions for the fund industry. Also emphasised was its commitment to integrating artificial intelligence (AI) into finance, including plans for a flagship AI and fintech conference in 2026 as well as the establishment of an AI Experience Centre. Additionally, Luxembourg has taken a pioneering step in digital finance with the

issuance of its first digital treasury certificate, offering faster processing, enhanced security, and full transparency for investors; all of which are part of a broader strategy to develop a digital sovereign budget and set a benchmark within the eurozone.

This article explores the most relevant changes affecting private wealth in Luxembourg, with a focus on tax reforms and investment incentives.

Extension of real estate tax incentives: new opportunity to diversify

Access to housing remains a critical issue in Luxembourg, not only for its citizens but also for attracting international talent. To address this, a comprehensive real estate tax reform is underway. Initially introduced in 2023 by the previous government, the reform has recently been revived by the current administration. Its primary aim is to make housing more accessible through a series of tax measures. In the interim, a law adopted in 2024 introduced both permanent and temporary tax incentives designed to boost housing supply and support individuals in purchasing or renting homes. These measures also present opportunities for private wealth management.

Originally intended for the 2024 fiscal year only, the temporary measures were part of an initial package to stimulate the construction sector. However, due to encouraging signs of recovery in property transactions, these incentives were first extended for an additional six months, through 30 June 2025 and then for an additional period of three months, through 30 September 2025 provided that preliminary agreements are registered with the tax authorities by 30 June 2025.

To support the housing market, Luxembourg extended the following temporary tax incentives.

- Reduction in Registration and Transcription Duties – a 50% reduction in the taxable base for registration and transcription duties applies to acquisitions of residential or rental property. The benefit is available where the notarial deed is executed by 30 June 2025, or by 30 September 2025 if a reservation or preliminary sale agreement is registered with the tax authorities by 30 June 2025.

- Bëllegen Akt Tax Credit for Rental Housing – a tax credit of EUR20,000 per individual acquirer is granted for investments in rental housing acquired through a sale in future state of completion (*vente en état futur d'achèvement* – VEFA). The notarial deed must be executed between 1 January 2024 and 30 June 2025, or by 30 September 2025 if a reservation contract is registered with the tax authorities by 30 June 2025.
- Reduced capital gains tax rate for private individuals – capital gains realised by individuals on the sale of real estate held as private assets are taxed at one-quarter of the standard rate, provided the notarial deed is signed by 30 June 2025 or, alternatively, by 30 September 2025 if a preliminary agreement is registered with the tax authorities by 30 June 2025.

In principle, under Luxembourg tax law, capital gains realised by individual taxpayers on real estate assets are taxed either at the marginal rate if the gain is speculative (ie, if the assets are sold within a certain period following their acquisition) or at a rate corresponding to half of the marginal rate if the gain is non-speculative (ie, if the assets are sold after that period). The marginal rate is the average rate resulting from the taxation of all the taxpayer's income. These provisions do not apply to the extent that the property sold is the taxpayer's principal residence.

To accelerate the incentive effects of the planned quarter rate measure and to curb speculation, the law also amends the deadline within which a real estate alienation is considered as speculative and extends it to five years, instead of two currently, as from 1 July 2025, except where a preliminary agreement is registered by 30 June 2025 and the notarial deed is executed by 30 September 2025. For the latter, the speculative period remains at two years.

- Accelerated depreciation (6% over six years) for rental housing investments – the law re-introduces, in terms of the amount and duration of application, a deduction - subject to a ceiling - in the depreciation rate of 6% for a period of six years, and for eligible buildings or parts of buildings. The properties within scope are those which are built for rental purposes and for which the taxpayer has

signed a notarial deed of sale in the future state of completion (*vente en l'état future d'achèvement* - VEFA) between 1 January 2024 and 30 June 2025. Alternatively, the special construction allowance remains available for buildings or units acquired under a deed of sale in future state of completion provided the preliminary contract was registered with the tax authorities by 30 June 2025 and the notarial deed is executed by 30 September 2025. The maximum annual amount that can be deducted in this respect is capped at EUR250,000. This amount is reached when the allowance is calculated on depreciable values of EUR6,250,000.

- Continued tax neutrality for reinvested capital gains in social or energy-efficient housing – non-speculative capital gains realised on real estate and reinvested in one or more properties used for social rental management purposes (*gestion locative sociale*), or in accommodation with a class A+ energy performance, are eligible for the tax-neutral regime. The tax-neutral regime is applicable to non-speculative capital gains reinvested in social rental housing or assets with energy performance class A+ by 30 June 2025 or alternatively by 30 September 2025, contingent upon registration of a preliminary sale agreement with the tax authorities by 30 June 2025.

In addition, the EUR40,000 “Bëllegen Akt” tax credit per individual, temporarily increased in 2024 from the initial amount of EUR30,000, for purchase of real estate intended for residential use, is set to become permanent.

These measures are particularly relevant for private investors and family offices seeking to diversify into real estate while optimising tax exposure.

Start-Up Tax Credit: a new opportunity for private investors

The Luxembourg government has proposed a new tax credit, starting in 2026, to encourage individuals to invest in young, innovative companies. This initiative, known as the “Start-Up Tax Credit”, aims to boost the country's appeal as a hub for innovation by improving early stage financing for start-ups.

To qualify for the tax credit, the investor must:

- be an individual Luxembourg tax resident or assimilated non-resident;
- not be an employee or founder of the start-up;
- invest directly in and hold, directly, new fully paid-up shares in a start-up entity;
- invest at least EUR10,000; and
- hold the shares for at least three years without interruption.

Under the current draft law, investments made through partnerships or businesses do not qualify. If the shares are sold or the company is liquidated within three years, the tax benefit may be revoked, except in cases such as bankruptcy or the investor's death or disability.

The company receiving the investment must:

- be a Luxembourg resident company or a permanent establishment of a collective entity established in an EEA member state;
- be less than five years old at the end of the tax year;
- employ fewer than 50 people and have total assets or annual turnover under EUR10 million; and
- be engaged in innovative activities, with at least two full-time contributors and R&D expenses making up at least 15% of operating costs in one of the last three years.

Under the current draft law, certain sectors are excluded, such as law firms, real estate companies, and publicly traded entities.

On 17 June 2025, the Luxembourg Council of State reviewed the proposed law that would introduce the Start-Up Tax Credit. While supportive of the initiative's goal, the Council raised several objections that must be addressed before the law can move forward. The Council notably questioned whether the law's strict eligibility rules might discourage investment rather than promote it. They suggested that the current requirements could limit the law's effectiveness in supporting innovation. For example, the law currently requires that investments be fully paid by the end of the calendar year. The Council argues this measure may be too restrictive and could limit start-ups' ability to raise funds when needed. They recommend allow-

ing a 12-month window from the time of investment instead.

A major concern is the exclusion of investments made through fiscally transparent entities (like partnerships). The Council is of the view that this creates unfair treatment between investors who invest directly and those who use such structures, potentially violating the constitutional principle of equality. Similarly, the law bars employees from claiming the tax credit in the year they work for the start-up, even though they can invest and work the following year. The Council argues this restriction is unfair, especially since other types of contributors like consultants are allowed.

Once amended and approved by the Council of State, this measure, aligned with broader EU trends, aims to encourage private capital to support innovation and entrepreneurship. For HNWIs, it offers a structured and tax-efficient way to participate in early stage growth companies.

The new impatriate regime: attracting global talent

Luxembourg has revised its impatriate regime that aims at attracting and retaining skilled foreign workers. The reform, enacted by the Law of 20 December 2024 and effective from the 2025 tax year, simplifies eligibility and enhances benefits of the previous regime. The objective of the new regime is to enhance Luxembourg's competitiveness in attracting and retaining highly skilled professionals by simplifying the eligibility conditions and increasing the clarity and predictability of the tax benefits. The reform also aligns Luxembourg with more competitive EU jurisdictions by simplifying access to tax relief for skilled foreign workers.

The impatriate regime provides for a 50% exemption on gross annual remuneration (including benefits in kind), capped at EUR400,000 per annum. This replaces the previous partial exemption on impatriate bonuses and relocation costs. The regime applies until the end of the 8th tax year following the year during which the impatriate starts to work in Luxembourg. This means that the impatriate may benefit from the new regime the year in which individual relocates to Luxembourg and the full eight fiscal years thereafter. Employees who have benefitted from the previous impatriate regime, applicable up to and includ-

ing 2024, remain subject to this previous version of the impatriate regime as long as the conditions for its application are met, unless the employee expressly asks for the application of the new impatriate regime.

This reform strengthens Luxembourg's appeal to international talent and indirectly benefits private wealth clients by enhancing the jurisdiction's human capital and economic dynamism.

Carried interest: attracting fund managers

Luxembourg has implemented a dedicated tax regime for carried interest applicable to individuals who are employees of AIF managers or AIF management companies. This regime clearly distinguishes between the following.

Carried interest received as a contractual entitlement (not linked to an investment), which is taxed as speculative income

Although now expired, the regime previously offered a quarter-rate tax treatment for carried interest received by impatriates (new residents), which served as a strong incentive for attracting talent. The authors of the article advocate for the reintroduction of this reduced rate on a permanent basis, arguing that it would significantly enhance Luxembourg's competitiveness in the private equity space. Indeed, introducing a reduced rate (such as a half or quarter rate) would bring Luxembourg in line with more competitive jurisdictions and reinforce its position as a leading fund domicile.

Carried interest embedded in financial instruments (eg, LP units or carried shares), which may benefit from capital gains treatment if certain conditions are met

Under this regime, capital gains derived from the sale of carried interest-linked investments (eg, carried shares) are fully exempt, provided the investments are held for more than six months and do not constitute a significant shareholding (ie, less than 10% of the capital in the first opaque entity that is part of the fund structure, which would typically be a master holding entity sitting below the investor-facing fund vehicle).

This framework enhances Luxembourg's appeal for structuring private equity and alternative investment funds.

However, while the current carried interest regime is well-defined, it remains complex and limited in scope. As recently announced by the Luxembourg government, amendments to the regime are expected with the aim of attracting more fund managers to the jurisdiction. In this context, a simplified and more generous tax treatment for carried interest not linked to investments (such as a flat reduced rate) would reduce administrative burdens and increase the regime's attractiveness for fund professionals.

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