DENTONS

SOPARFI

The Luxembourg financial holding company



2026

1. Luxembourg in a nutshell

Located in the heart of Europe, Luxembourg is a geographic and legal focal point within the European Union (of which it is a founding member).

Luxembourg benefits from a high level of political, social and fiscal stability as evidenced by its AAA credit ratings from all major Rating Agencies.

Thanks to its diverse population, Luxembourg has developed an extensive industry of talented and multilingual financial service providers. English, French and German are ubiquitous in the Grand Duchy, greatly enhancing Luxembourg's status as a financial center.

The Luxembourg financial centre offers a diverse and large range of financial services connecting investors and markets around the world. Luxembourg is the largest investment funds center in Europe and the second largest in the world. It is therefore a location of choice for leading private equity houses.



2. SOPARFI as Luxembourg investment vehicle

Luxembourg offers a wide variety of investment vehicles. This includes a wide variety of investment funds (both regulated and unregulated), securitization vehicles, partnerships and SOPARFIs.

For further information regarding investment funds available in Luxembourg, we invite you to refer to Dentons Investment Vehicles (Fund) Brochure.

SOPARFI stands for ***SO****ciété de* ***PAR****ticipations* ***FI****nancières*. SOPARFIs are unregulated and fully taxable ordinary commercial companies whose corporate purpose consists of holding and related financing activities. SOPARFIs are typically incorporated as private limited liability companies (société à responsabilité limitée, S.à r.l.), public limited companies (*société anonyme,* S.A.) or as partnerships limited by shares (*société en commandite par actions*, S.C.A.), depending on the specific needs of the shareholder(s).

SOPARFIs benefit from corporate tax exemptions on dividends, capital gains and net wealth on qualifying participations, subject to certain requirements. Further, outbound dividends paid to qualifying shareholders are exempt from Luxembourg dividend withholding tax. Additionally, SOPARFIs benefit from full access to Luxembourg's extensive double tax treaty network and EU Directives.

3. Corporate taxation regime

SOPARFIs, as any other ordinary Luxembourg resident limited companies, are subject to corporate income taxation in Luxembourg on their worldwide income (subject to applicable double tax treaties and exemptions).

3.1 Corporate Income Tax and Municipal Business Tax

SOPARFIs are subject to corporate income tax ("**CIT**") at a rate of 16%[1] *plus* a solidarity surcharge for the employment fund of 7%.

Additionally, Luxembourg levies a municipal business tax ("**MBT**") on the net profits realized by Luxembourg companies the rate of which varies from one municipality to another. In Luxembourg-City, the MBT rate is set at 6.75%.

As such, the overall combined rate of CIT and MBT for SOPARFIs established in Luxembourg-City is 23.87% for FY 2026.



[1] 14% if the company's income does not exceed EUR 175,000 and for companies with an income between EUR 175,000 and EUR 200,001, the CIT is calculated as EUR 24,500 plus 30% of the amount exceeding EUR 175,000.

3.2 Net wealth tax and minimum net wealth tax

Luxembourg levies an annual net wealth tax ("**NWT**") on companies based on their unitary value which corresponds to the difference between assets (generally estimated at their fair market value) and liabilities as per a certain key date (in principle, on January 1 of each year).

The NWT is levied at a rate of 0.5% on a taxpayer's unitary value. This rate is reduced to 0.05% for the portion of a taxpayer's net assets that exceeds EUR 500 million.

Until tax year 2024, Luxembourg levied a minimum NWT on companies (i) ranging between EUR 535 and EUR 32,100 depending on the total of their balance sheet or (ii) a minimum lump-sum NWT of EUR 4,815 if their financial assets, transferable securities and cash deposits exceeded cumulatively 90% of their total balance sheet and EUR 350,000.

The Luxembourg Constitutional Court found in its ruling of 10 November 2023 the flat minimum NWT of EUR 4,815 unconstitutional. The regime was therefore amended and, as from tax year 2025, the minimum NWT is set as follows:

- EUR 535 for companies with a total balance sheet of up to EUR 350,000;
- EUR 1,605 for companies with a total balance sheet comprised between EUR 350,001 and EUR 2 million; and
- EUR 4,815 for companies exceeding a total balance sheet of EUR 2,000,000.

However, the minimum NWT may be reduced by the CIT payable in the previous year.

3.3 Value added tax (VAT)

The Luxembourg standard VAT rate is of 17% and the lowest in the European Union. As long as a SOPARFI's activities are limited to holding participations in other companies, it will not be regarded as a taxable person for VAT purposes. Hence, a pure holding SOPARFI will not be required to register for VAT in Luxembourg.

Where a SOPARFI also performs other services next to its holding activity, its VAT status must be determined on an individual basis to ascertain whether VAT registration is necessary and whether or not input VAT may be recovered.

4. The participation exemption regime

4.1 Inbound Dividends and liquidation proceeds

Pursuant to the Luxembourg participation exemption regime, dividends and liquidation proceeds received by a SOPARFI from a subsidiary will be fully exempted from CIT and MBT provided the following conditions are met:

- The distributing subsidiary must be:
  - An entity listed under and covered by Article 2 of the EU Parent-Subsidiary Directive 2011/96/ EU ("**PSD**");
  - A Luxembourg resident limited company; or
  - A non-resident limited company subject to a tax corresponding to Luxembourg CIT.[2]
- The SOPARFI must hold a participation of at least 10% (or, alternatively, a participation of an acquisition cost of at least EUR 1,200,000) in the subsidiary; and
- The SOPARFI must hold such qualifying participation for an uninterrupted period of at least 12 months.

If, in a given year, related expenses exceed the income derived from the participation, the excess is deductible. Otherwise, the deductibility of expenses connected to tax exempt income under the participation exemption regime is denied during the year in which the dividend is received (dividend recapture rule).

Starting from tax year 2025, SOPARFIs may elect to forgo the exemption where dividend income qualifies solely on the basis that the acquisition price of the participation amounts to at least EUR 1,200,000. This election must be made annually and separately for each shareholding that relies on this acquisition price threshold to benefit from the exemption.

[2] Generally, a tax corresponds to Luxembourg CIT if (i) it is levied at a rate of at least 8% (i.e., half of the Luxembourg CIT) and (ii) its taxable basis is determined according to rules and criteria similar to those applicable in Luxembourg.

4.2 Capital Gains

Capital gains realized by a SOPARFI on a disposal of shares in a subsidiary are fully exempt from Luxembourg CIT and MBT provided the following conditions are met:

- The subsidiary must satisfy the same conditions as those applicable for the exemption of inbound dividends;
- The Luxembourg SOPARFI must hold a participation of at least 10% (or, alternatively, a participation with an acquisition cost of at least EUR 6,000,000); and
- The SOPARFI must hold such qualifying participation for an uninterrupted period of at least 12 months.

The exemption does not apply to the extent of the sum of related expenses and value adjustments that have decreased the tax result of the current year or preceding years (capital gains recapture rule).

4.3 Net Wealth Tax

Participations held by a SOPARFI are exempt from the 0.5% NWT provided that the following conditions are met:

- The subsidiary must satisfy the same conditions as those applicable for the exemption on inbound dividends; and
- The SOPARFI must hold a participation of at least 10% (or, alternatively, a participation of an acquisition cost of at least EUR 1,200,000) in the subsidiary.

The NWT participation exemption regime does not mandate a minimum holding period.

4.4 Anti–abuse rules regarding the dividend participation exemption regime

Luxembourg has introduced an anti-hybrid and general anti-abuse rule in the domestic provisions regarding the participation exemption, stemming from the revised version of the PSD ("**PSD GAAR**").

Consequently:

- Dividends/profit distributions which are tax deductible in the hands of the subsidiary do not benefit from the participation exemption; and
- Dividends/ profit distributions do not benefit from the participation exemption if they derive from an arrangement or a series of arrangements that have been put in place for the main purpose of obtaining a tax advantage that defeats the object or purpose of the participation exemption regime and are not genuine considering all the relevant facts and circumstances.

The PSD GAAR only applies for inbound and outbound dividend exemption purposes but not for capital gains nor for NWT exemption purposes.

5. Withholding taxes

5.1 Outbound Dividends

Dividends paid by a SOPARFI to a resident or non-resident shareholder are subject to a withholding tax at a standard rate of 15%.

Exemptions or reduced rates may apply under applicable double tax treaties.

A full withholding tax exemption is available under the Luxembourg participation exemption regime if the SOPARFI:

- Is held by (i) a company (or a permanent establishment thereof ("**PE**")) listed under article 2 of the PSD, or (ii) a Luxembourg resident limited company, or (iii) a non-resident company (or a PE thereof) fully subject to a tax corresponding to Luxembourg CIT and which is resident in (a) a state having a double tax treaty with Luxembourg or (b) an EEA country (other than Luxembourg); and
- Its corporate shareholder holds a minimum participation of 10% in the capital of the SOPARFI (or, alternatively, a participation of an acquisition cost of at least EUR 1,200,000), for an uninterrupted period of at least 12 months.

The withholding tax exemption may be denied under the PSD GAAR.

5.2 Interest

Payments of interest made by a SOPARFI are generally free and clear of withholding tax.

A 15% withholding tax may however apply to interest paid under profit participating bonds/notes or on interest payments which are not at arm's length.

5.3 Liquidation Proceeds

There is no withholding tax levied on a full or partial liquidation of a SOPARFI irrespective of the tax residence/ tax status of its shareholder(s).

5.4 Royalties

There is no withholding tax on royalty payments made by a SOPARFI.

6. Financing activities

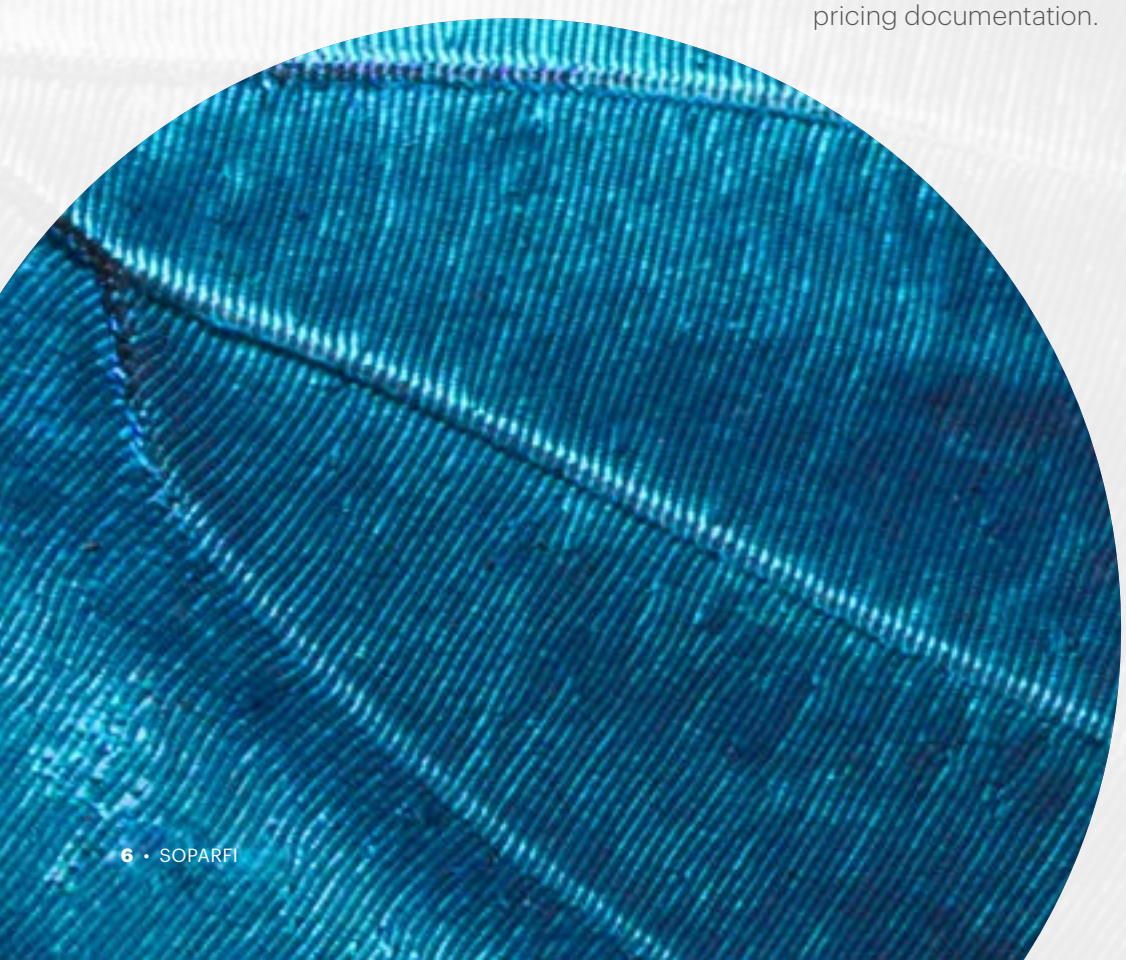
It is common for a Luxembourg SOPARFI to carry out group financing activities next to its holding activity. Luxembourg has fully integrated the arm's length principle contained in the OECD model tax convention in its domestic tax legislation.

The Luxembourg tax authorities ("**LTA**") have issued, on 27 December 2016, Circular L.I.R. n° 56/1 – 56bis/1 (the "**Circular**") which applies to all companies carrying out intra-group financing activities. The Circular is consistent with the OECD Transfer Pricing Guidelines.

A SOPARFI having a financing activity falling within the scope of the Circular will, schematically, need to:

- Realize an arm's length margin on such intra-group financing activity (a comparability analysis will be key to determine the application of the arm's length principle);
- Have sufficient levels of equity to assume the risks related to its financing activity; and
- Have sufficient substance to control the risks relating to its activity (see section 8.2 below).

SOPARFIs falling within the scope of the Circular should prepare and maintain proper transfer pricing documentation.



7. Double Tax Treaty Network

As of August 2026, Luxembourg has concluded 94 DTTs with additional DTTs still under negotiation.

The full list of DTTs can be found on: https://impotsdirects.public.lu/fr/conventions/luxembourg.html.

In addition, Luxembourg has signed the OECD Multilateral Convention (MLI)

8. Substance

8.1 General

Under Luxembourg tax laws, a company (such as a SOPARFI) is considered as a Luxembourg resident when its registered office or its central administration is in Luxembourg. Residence certificates (for both domestic and DTT purposes) may be issued to the SOPARFI by the LTA upon simple demand, provided the SOPARFI is in good standing.

Luxembourg tax law does not provide for specific substance requirements except for companies falling into the scope of the Circular.

However, other jurisdictions may have certain substance requirements to grant the benefit of a double tax treaty, an EU directive, or a specific exemption under national tax law. As such, maintaining an appropriate level of substance should mitigate the risk of foreign tax authorities refusing the SOPARFI to apply treaty benefits, eligibility under EU Directives, or other domestic benefits/exemptions.

The most decisive element with it comes to substance is to ensure that the SOPARFI is effectively managed from, and key decisions are taken in, Luxembourg.

8.2 Specific substance rules for Group Financing Companies

SOPARFIs that are engaged in intra-group financing activities are specifically required to comply with the following substance requirements as per the Circular:

- The majority of board members, directors or managers who have the capacity to bind the SOPARFI must be (personally or professionally) resident in Luxembourg;
- Key management decisions must be made in Luxembourg;
- The SOPARFI must have qualified personnel with the ability to control the financing transactions performed. That said, the SOPARFI may outsource the functions that do not have a significant impact on the control of the risks; and
- The SOPARFI must not be a tax resident of any other jurisdiction other than Luxembourg.

9. BEPS measures

The OECD has developed 15 action plans to prevent tax base erosion and profit shifting ("**BEPS**") strategies used by multinational enterprises. Over 135 countries and jurisdictions are collaborating on the implementation of measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment.

Luxembourg has been one of the forerunners in the implementation of the BEPS related measures and hence offers a tax environment which is fully compliant with OECD standards.

9.1 Multilateral Instrument

Luxembourg is a signatory to the OECD's Multilateral Convention ("**MLI**"). The MLI entered into force in Luxembourg as from 1 August 2019. Luxembourg has opted, like most jurisdictions, for the "principal purpose test" ("**PPT**") following to which a benefit under a treaty may be denied if such benefit was one of the principal purposes of an arrangement or transaction that resulted in such benefit.

9.2 Anti-Tax Avoidance Directives

At the EU level, Directive 2016/1164 of 12 July 2016 ("**ATAD 1**") and Directive 2017/952 of 29 May 2017 ("**ATAD 2**") were adopted to implement certain actions contained in BEPS with respect to interest deduction limitation rules, controlled foreign companies, general anti-abuse rule and hybrid mismatch rules.

ATAD 1 and ATAD 2 were implemented into Luxembourg domestic law and have been in-force as of the 1st of January 2019 and the 1st of January 2020 respectively.

The most salient ATAD measures for SOPARFIs are the following:

9.2.1 Interest Limitation Rule

According to the interest deduction limitation rule ("**IDLR**"), the deduction of the exceeding borrowing costs[3] (if any) of a SOPARFI is limited to the higher of EUR 3 million or 30% of the SOPARFI's EBITDA.

Where a SOPARFI predominantly realizes tax exempt income (exempt dividends or capital gains under the participation exemption), the IDLR does not adversely impact the SOPARFI's interest deduction capacity.

Furthermore, where a SOAPRFI is engaged in an intra-group financing activity, the IDLR should not impact the interest deduction capacity of the SOPARFI.

9.2.2 Controlled Foreign Company Rules

The main purpose of the controlled foreign company ("**CFC**") rules are to prevent taxpayers from shifting profits to low-tax jurisdictions.

A SOPARFI's subsidiary or PE may qualify as a CFC. Undistributed profits of a CFC which arise from non genuine arrangements may be included in the tax base of the SOPARFI if:

- The SOPARFI holds, together with associated enterprises, directly or indirectly, more than 50% of the voting rights, capital or profits entitlement of a foreign entity; and
- The foreign entity is subject to an effective tax rate which is lower than 50% of the Luxembourg CIT that would have been due in Luxembourg.

However, subsidiaries or PEs with accounting profits below (i) EUR 750,000 or (ii) 10% of its operating costs for the tax period are exempted from the CFC rules.

The LTA may request the Luxembourg taxpayer to provide certain documentary evidence of a CFC's taxation and payment.

9.2.3 Anti-hybrid rules

The anti-hybrid rules address several categories of hybrid mismatches that exploit differences between tax systems. Hybrid mismatches, which result from two (or more) jurisdictions qualifying an entity, a financial instrument or a PE of an entity differently for tax purposes, can lead to so-called deduction/ non-inclusion or double deduction outcomes.[4]

The scope of the hybrid mismatch rules is schematically limited to mismatches arising between (i) associated enterprises (as defined in the anti-hybrid rules), (ii) a head office and its PE, (iii) two or more PEs of the same entity or (iv) under a structured arrangement.

To neutralize these mismatches, Luxembourg may be required to deny the deduction of payments, expenses or losses, to include payments as taxable income or to deny relief from double taxation.

9.3 Pillar 2

On 20 December 2023, Luxembourg has transposed the Council Directive (EU) 2022/2523 (the so-called "**Pillar Two Directive**") into its legislation. This new set of rules aims to make sure that multinational enterprises ("**MNEs**") with annual consolidated revenues of at least EUR 750 million pay a minimum tax rate of 15%.

Three main rules apply under this new system:

- The Income Inclusion Rule ("**IIR**") applies since financial years starting on or after 31 December 2023.
- The Undertaxed Profits Rule ("**UTPR**"), sometimes called the *undertaxed payments* rule, applies since financial years starting on or after 31 December 2024.

[3] Pursuant to the IDLR, a taxpayer's borrowing costs are in excess if *"interest expenses on all forms of debt and others costs economically equivalent to interest and expenses incurred in connection with the raising of finance"* exceed the *"interest revenues and other economically equivalent taxable revenues"*.

[4] *I.e. situations where the same payment is deductible in more than one jurisdiction or where a payment is deducted from the tax base in one jurisdiction without a corresponding inclusion in the tax base in another jurisdiction.*

- Luxembourg has also chosen to introduce a Qualified Domestic Top-up Tax ("**QDMTT**"), which took effect at the same time as the IIR, from financial years beginning on or after 31 December 2023.

The Pillar Two filing obligations consist of three levels: registration, the GloBE Information Return (GIR), and the Top-up Tax Return (TTR)

- Registration: Each in-scope Luxembourg entity must register via MyGuichet.lu, the official Luxembourg portal for tax filings.
- GIR: By default, each in-scope entity must file a GIR locally. However, a single GIR can be filed by the UPE or another group entity on behalf of the entire group if It is filed in a country with an automatic exchange agreement with Luxembourg, and the GIR is submitted on time.If those conditions are not met, in-scope Luxembourg entities may be required to submit the GIR locally.
- Top-up tax return (QDMTT, IIR, or UTPR): Any in-scope Luxembourg entity may file the top-up tax return via MyGuichet.lu on behalf of all Luxembourg group entities. Where top-up tax is due, payment must be made within one month of filing.

All obligations (including registration, deregistration, notifications, GIR, and any top-up tax return) must be fulfilled within 15 months of year-end (e.g., for the 2025 fiscal year, deadline is 31 March 2027).

Failure to meet Luxembourg's Pillar 2 obligations may result in substantial penalties :

- Registration failure: EUR 5,000 per Luxembourg entity
- Incomplete, late, or incorrect GIR: up to EUR 250,000
- No GIR filed abroad, or no proof of foreign filing: up to EUR 300,000

Incomplete, late, or incorrect top-up tax returns up to EUR 250,000

9.4 Mandatory disclosure rules

The Luxembourg law of 25 March 2020 (the "**DAC6 Law**") transposed Council Directive (EU) 2018/822 of 25 May 2018 concerning the mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements ("**DAC6**").

Under the DAC6 Law, non-exempt intermediaries and, in some cases, the taxpayer himself, will have to report potentially tax aggressive cross-border arrangements to the LTA. A cross-border arrangement may be reportable if it meets one of the hallmarks set out in the DAC6 Law.

Intermediaries subject to a legal privilege (such as lawyers) are exempted from reporting obligations under DAC 6.

The LTA will automatically exchange the reported information with other EU Member States.

The non-compliance with the DAC6 Law may trigger fines of up to EUR 250,000.

SOPARFIs should carefully monitor whether transactions entered by them would be reportable under the DAC 6 Law.

10. Tax compliance for a SOPARFI

10.1 Tax return filings

A SOPARFI must submit annual tax returns for the purposes of CIT, MBT, and NWT.

Corporate tax returns (CIT, MBT and NWT) for a given year must be filed online prior to 31 December of the following calendar year.

The late filing of corporate tax returns may trigger penalties. SOPARFIs which intentionally file an inaccurate or incomplete corporate tax return, or which intentionally fail to submit direct tax returns, may be subject to additional penalties.

10.2 Advance payments for CIT, MBT and NWT

A SOPARFI is required to provide advance tax payments based on the last tax assessment released (or the estimated taxable profit for the corresponding year). Typically, no advance payments are requested during the early years of a corporate taxpayer's existence.

Advance tax payments must be paid by the following dates: (i) for CIT: 10 March, 10 June, 10 September, and 10 December; and (ii) for NWT and MBT: 10 February, 10 May, 10 August, and 10 November.

The quantum of each advance payment may be adjusted upon justified demand from the SOPARFI.

Late payment of tax advances will incur interest that accrues at a monthly rate of 0.6% (on the unpaid balance).

10.3 Tax assessments

The LTA delivers final tax assessments with respect to corporate tax returns within five years of the financial year's end.

In practice, the LTA issues a tax assessment based on the tax returns (a self-assessment notice) without reviewing the records themselves. This self-assessment notification is not final, and the LTA is authorized to review the return at any time prior to the end of the fifth year following the relevant financial year. They may, if necessary, issue a final tax assessment upon examination of the tax returns submitted.

By the end of the five-year term, and if no further or final tax assessment is provided, a self-assessment notice inevitably becomes final.

10.4 Statute of limitation

Luxembourg domestic law provides for a statute of limitations barring collection of any taxes (including any penalties, interest for delayed payments, etc.) beyond the fifth-year following the applicable tax period. This period may be doubled to ten years where a SOPARFI is found to have failed to submit a return or when a SOPARFI submits a return that is incomplete or erroneous (with or without fraudulent intent).

Contacts



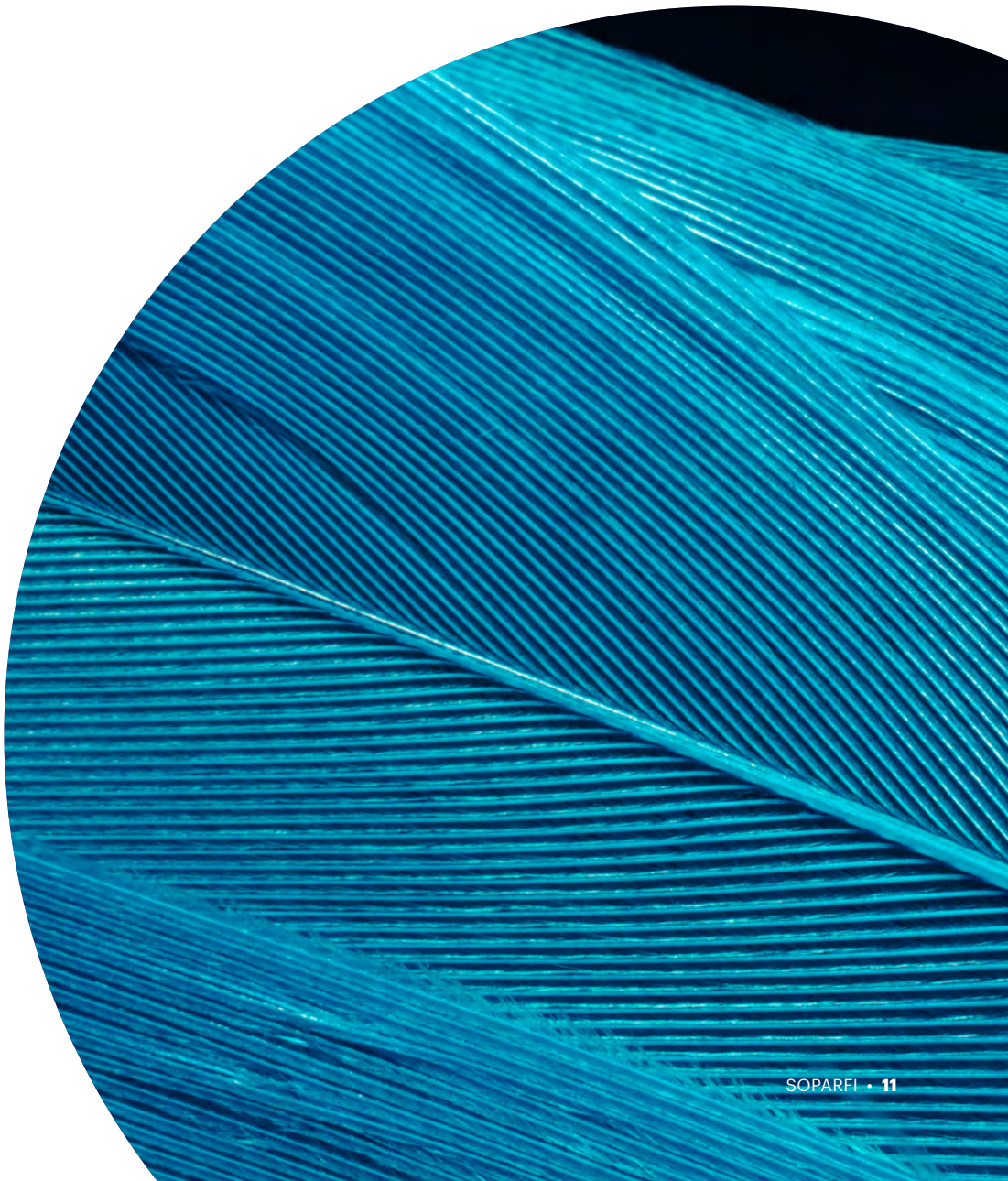
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