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What are the tax benefits of setting up a securitisation vehicle in Luxembourg?

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Luxembourg has emerged as a premier jurisdiction for establishing securitisation vehicles due to its favourable tax regime, legal framework, and regulatory environment.

Luxembourg securitisation vehicles (**SV**) are governed by the law of 22 March 2004 on securitisation, as amended (the **Securitisation Law**), which aims to achieve a regime of tax neutrality. Additionally, the Securitisation Law offers a high degree of operational flexibility for securitisation transactions, type of investors, and form under which an SV can be set up. An SV may therefore constitute an excellent choice for optimising your investment strategy. For more information on the legal status of an SV, see our dedicated article: A guide to unregulated securitisation vehicles in Luxembourg | Ogier

An SV can be tailored to your specific requirements, set up either as a *securitisation company* or as a *securitisation fund*. Each option allows for the creation of multiple compartments, each one could have its own specific and dedicated investment policy. The structure choice affects not only the operational aspects of the SV but also its tax treatment.

Luxembourg securitisation vehicles and taxation

Navigating the complex tax landscapes applicable to each SV structure is crucial to circumventing potential tax challenges and identifying the most suitable vehicle for your needs. In some instances, reaching a favourable tax position may require sophisticated structuring.

When structuring securitisation vehicles in Luxembourg, the following tax-related considerations have to be kept in mind:

- **Tax opaque or tax transparent structure**: with a view to achieving the tax neutrality of a Luxembourg SV structure, a key consideration would be whether opting for a corporate tax blocker like a private limited liability company *versus* adopting a tax transparent entity such as an SV fund or a limited partnership

- **Income tax neutrality**: Luxembourg's legal framework aims at ensuring tax neutrality for SVs. However, recent tax developments such as the introduction of interest limitation rules require careful review of the structure
- **Withholding tax**: understanding the nuances of withholding tax (especially at the level of the assets held by the SV) is essential for optimising the tax position of the SV
- **VAT**: the VAT treatment of operations involving SVs requires careful examination on a case-by-case basis to assess whether exemption regime is available and to which extent

How can Ogier help?

Should you wish to further explore the opportunities an SV offers or discuss potential structuring options, contact our Tax team in Luxembourg. Our experts have extensive experience and offer tailor made and creative tax and legal solutions to achieve our clients' objectives.

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