



Snapshot: what are some tax consequences of debt funding for Luxembourg?

Insights - 20/10/2022

The recent decision taken by the Luxembourg Tribunal Administratif on 23 September 2022 (decision 44902), where an interest-free loan was requalified as equity financing for tax purposes, [1] once again sheds a light on one of the most important dilemmas in corporate finance, at least from a tax perspective. Should an entity be financed with debt or equity?

Recent international (ie at OECD level), regional (ie at the level of the European Union) and unilateral initiatives have been launched and implemented to tackle a bias towards debt financing and therefore limit the risk for aggressive base erosion.

In Luxembourg, there are various legal provisions which mitigate the effects of debt financing on tax base reduction or withholding tax relief. Here is a non-exhaustive list of some of the situations covered by these Luxembourg legal provisions applicable to Luxembourg companies financed by debt (loan, bond, notes etc):

For more information, please contact a member of our expert tax team who are ready to help you, and your clients, navigate the different angles of corporate funding and their tax treatment under Luxembourg law.

[1] Read our [briefing](#) on this decision.

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