

Luxembourg Circular no. 164/1 dated 29 January 2025 – Interest rates on shareholders' current accounts

In brief

The Luxembourg Tax Authorities issued Circular LIR no. 164/1 ("The Circular") on 29 January 2025, concerning interest rates applicable to shareholders' current accounts. The Circular replaces the previous Circular no. 164/1, dated 23 March 1998.

Reinforcing the application of the arm's length principle, The Circular states that interest rates on shareholders' current accounts must be determined in accordance with market conditions.

Scope of application

As the previous circular, The Circular is divided into two sections: the first addressing the interest rate applicable when the shareholder is an individual, and the second covering the case when the shareholder is an affiliated entity.

1. The shareholder is an individual

While the previous Circular (dated 23 March 1998) set an interest rate fixed at 5%, the new Circular eliminates any pre-determined rate. Instead, taxpayers must apply market conditions, i.e., the conditions which would be established between independent parties in a comparable transaction (according to Art. 164(3) LIR).

The Circular also introduces a simplification measure, allowing the use of an interest rate based on the annual rate applicable to consumer credits. Nevertheless, taxpayers opting for this measure must provide sufficient evidence to justify its application. In this regard, reference can be made to the monthly average rates published by the Central Bank of Luxembourg, which detail the interest rates applied to deposits and loans by Luxembourg credit institutions.

2. The shareholder is an affiliated entity

Where the shareholder is an associated entity, The Circular restates that the interest rate must be determined on a case-by-case analysis, in accordance with the arm's length principle as defined in Articles 56 and 56bis LIR. The Circular specifies that the interest rate depends on several factors, including the currency of the receivable, exchange rate risk, hedging risk, refinancing rate, maturity of the receivable, and other relevant considerations.

Contact us

For further information do not hesitate to contact one of our team members who will be glad to assist you at any time:

Ina Nötzel

(Partner)

ina.noetzel@lu.andersen.com

Matthias Gutknecht

(Partner)

matthias.gutknecht@lu.andersen.com

