
# SOPARFI - Financial Holding Company

(Société de participations financières – Luxembourg company under law of commercial activity 10/08/1915)

## Background

The Luxembourg SOPARFI is a fully taxable ordinary commercial company, it has been designed for the optimization, structuring and holding of subsidiaries in or providing financing to other companies, as well as for the running of regular commercial activities.

Indeed, the main feature of the SOPARFI is the privileged tax scheme that goes together with a full recognition and acceptance on an international level as a fully taxable company.

The SOPARFI doesn’t require formal authorization unless it aims to undertake a commercial activity and as such is an unregulated Luxembourg Limited Liability Company that only becomes a SOPARFI once it holds a stake of at least 10% or alternatively an acquisition price of over EUR 1.2 million (dividends) or EUR 6 million (capital gains) for a period of 12 months in another fully taxable company.

Tax advantages are granted once those conditions are met. Besides its holding activities, a SOPARFI can act as a normal commercial company. From a fiscal point of view, three activities are dissociated and treated differently:

1. Holding activity: The « pure SOPARFI »
2. Commercial activity: Regular Luxembourg company
3. Holding and management of Intellectual Property rights


# Tax facts

## A. Company incorporation and share transfer

| Tax | Commercial activities | Holding activities | Remarks |
|---|---|---|---|
| Capital Duty | EUR 75,- flat | | - |
| Stamp duty | No stamp duty on share transfers | | - |

## B. General tax features

| Tax | Commercial activities | Holding activities | Mixed |
|---|---|---|---|
| VAT | VAT liable | Not VAT liable under condition: the corporate purpose is limited to holding activities | Mixed SOPARFI's are VAT liable |
| Annual Subscription - taxe d'abonnement | Exemption | Exemption | Exemption |
| Net Worth Tax (ISF) + minimum | 0,5% of the net worth of the company (at market value) | | A « special reserve » can be set up in order to avoid the net worth tax |
| Company Taxes (Cumulative as IRC + ICC) + Minimum Net Wealth Tax | 21,84% on taxable profits (see exemptions on the tax basis for the SOPARFI here below) | | Tax rate in Luxembourg-city: 28,59% on taxable profits. Municipal Business (rate anounced to be reduced (to 25,5%) |
| Municipal Business Tax (ICC) | From 6,75% (companies located in Luxembourg city) 9,75% (depending on the municipalities) on taxable profits with some adjustments | | |


## C. Incoming Flows

| Operation | Commercial activities | Holding activities | Remarks |
|---|---|---|---|
| "Commercial" profits | Taxable on IRC and ICC (28,59% on taxable profits) | - | - |
| Dividends received | 50% of the dividends are taxed on IRC and ICC (Art.105)<br>Exempt if dividends are received from a fully taxable company issued out of:<br>-EITHER Luxembourg;<br>- OR the European Union;<br>- OR a country that has a double tax treaty with Luxembourg. | Total exemption under the following conditions:<br>1. Subsidiary is a "fully taxable" company<br>2. Holding of at least 10% of the share capital<br>OR acquisition price of at least EUR 1,2 million<br>3. Holding for at least 12 months in a row | Otherwise: Fully taxable on IRC and ICC (28,59% on taxable profits) |
| Interests received | Taxable on IRC and ICC (28,59% on taxable profits) Tax regime | | - |
| Losses in selling participations | Deductible on the tax basis | | - |
| Capital gains received | Only 50% of the capital gains are taxed on IRC and ICC if they are received from a fully taxable company issued out of:<br>- EITHER Luxembourg;<br>- OR the European Union;<br>- OR a country that has a double tax treaty with Luxembourg. | Total exemption under the following conditions:<br>1. Subsidiary is a "fully taxable" company<br>2. Holding of at least 10% of the share capital OR acquisition price of at least EUR 6 million<br>3. Holding for at least 12 months in a row<br>Attention: see remark | Otherwise: Taxable<br>Attention: Not exempted: the amount equivalent to the costs and interests that have been deducted in the past and that were related to that participation (recapture rule) |


| | | | |
|---|---|---|---|
| Liquidation proceeds received | Only 50% of the liquidation proceeds are taxed on IRC and ICC (28,59%) if they are received from a fully taxable company issued out of:<br>- EITHER Luxembourg;<br>- OR the European Union;<br>- OR a country that has a double tax treaty with Luxembourg. | Total exemption under the following conditions:<br>1. Subsidiary is a "fully taxable" company<br>2. Holding of at least 10% of the share capital OR acquisition price of at least EUR 1,2 m (dividends)/ EUR 6m (capital gains)<br>3. Holding for at least 12 months in a row | Otherwise: Taxable |
| Losses realized on liquidation of participations | Deductible on the tax basis | | - |

## D. Outgoing flows

| Operation | Commercial activities | Holding activities | Remarks |
|---|---|---|---|
| Dividends paid | No withholding tax if:<br>1.The mother company is accepted under the EU parent subsidiary directive OR is a fully taxable resident of a country having signed a DTT with Luxembourg<br>2. Holding of at least 10% of the share capital OR acquisition price of at least EUR 1,2 Mio<br>3. Holding for at least 12 months in a row | | Otherwise: 15% withholding tax on dividends paid |
| Interests paid | No withholding tax AND deductible on the tax basis<br>But: Savings directive is applicable -> Withholding tax of 20% if paid to EU-resident individuals (rate applicable until 2011) | No withholding tax<br>But: If a loan has been contracted for the acquisition of SOPARFI compatible shares, only those interests are deductible that exceed | Attention: Withholding tax of 15% and no deduction on interests that exceed the debt/ equity ratio (85/15) => (thin capitalization rule) |


| | | | |
|---|---|---|---|
| | | the exempted revenues coming from that participation.<br>But: Savings directive is applicable -> Withholding tax of 20% if paid to EU-resident individuals | Attention: If interests related to a participation are deducted, then such amount cannot be exempted if a capital gain should be realized while selling that participation (recapture rule) |
| Expenditures | Deductible from the tax basis (IRC and ICC) | Expenditures exceeding the amount of exempted dividends are deductible from the tax basis | Attention: If expenditures related to a participation are deducted, then such amount cannot be exempted if a capital gain should be realized while selling that participation (recapture rule) |

## E. Liquidation of the company

| Operation | Commercial activities | Holding activities | Remarks |
|---|---|---|---|
| Liquidation proceeds | No withholding tax | | - |


## Conclusion

The SOPARFI is a vehicle that is aimed for the structuring of international groups, for conducting private equity investments or for the simple holding of assets. In this respect, it is commonly used as a structure used by multinational groups, investment companies, and families in order to manage their private wealth. As for the latter, one should not forget the advantages with regard to the inheritance of those assets within a SOPARFI.

To sum up, commercial and financial activities can coexist in one single structure. Although commercial activities are taxed at standard rates, the financial operations are at a large scale tax exempt. The SOPARFI is further on double tax treaty and EU directives compatible that grant to the SOPARFI substantial tax advantages.

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