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## THE ROLE OF THE COUNTRY'S TAX SYSTEM IN ATTRACTING BUSINESS

The tax system plays a crucial role in the functioning of a country's economy and society. The tax system is integral to the economic health and social well-being of a nation. It not only provides necessary revenue for governmental functions but also helps in redistributing wealth, stabilizing the economy, influencing behavior, and ensuring the efficient allocation of resources. Usually when we talk about the tax system, we discuss the tax burden and how negatively it affects business. But there are tax systems that, on contrary, attract business and thus contribute to the economic development of countries.

*Luxembourg, a small but affluent country in Europe, has a unique economic structure and tax system. Luxembourg has experienced robust economic growth over the years, characterized by:*

- one of the highest GDP per capita in the world. Luxembourg's GDP per capita is approximately €108,000 (or about \$115,000 USD) in nominal terms
- Financial Services Hub: a significant portion of its GDP comes from financial services.
- diversified Economy: while finance dominates, there are also strong sectors in technology, logistics, and manufacturing.

In the table we provide the main taxes that are included in the tax system of Luxembourg.

*Table 1*

### Characteristics of the tax system of Luxembourg

Tax	Characteristics	Rate
Personal Income Tax	Levied on the income of individuals, including salaries, pensions, and	The personal income tax system is progressive, with

Продовження таблиці 1

	rental income	rates ranging from 0% to 42%.
Corporate Income Tax	Applied to the worldwide income of resident companies and the Luxembourg-source income of non-resident companies	The general corporate income tax rate is around 24.94% as of 2023.
Value-Added Tax (VAT)	One of the lowest standard VAT rates in the EU	Standard Rate: 17% Intermediate Rate: 14% Reduced Rate: 8% Super-Reduced Rate: 3%
Wealth Tax	Luxembourg does not currently impose a wealth tax on individuals. The wealth tax that existed was abolished for individuals in 2006. However, wealth taxes do apply to corporations. Imposed on the net assets of companies, both resident and non-resident with Luxembourg-based business operations	0.5% of the net wealth up to €500 million. For net wealth exceeding €500 million, the rate is 0.05%
Municipal Business Tax	A local tax levied on the income of businesses operating within a municipality	Each municipality applies its own multiplier to the base rate. The multiplier is a percentage that varies by location. The base rate is 6.75% of the taxable income of the business and a municipal multiplier that differs from one municipality to another.
Withholding Taxes	Applied to certain types of income paid to both residents and non-residents. These taxes are withheld at the source by the payer and remitted to the tax authorities.	Dividends: typically 15% Interest: generally 0% (with some exceptions) Royalties: 0%
Social Security Contributions	Contributions paid by both employers and employees to fund social security benefits, including healthcare, pensions, and unemployment benefits	The overall employee contribution rate is approximately 14.4% of the gross salary. The overall employer contribution rate is approximately 15.91% of the gross salary.

*Also there are other taxes:* real estate taxes, taxes on specific goods such as alcohol, tobacco, and fuel, various taxes aimed at promoting environmental sustainability, such as taxes on CO<sub>2</sub> emissions, an annual tax on vehicle ownership.

What makes the tax system of Luxembourg attractive for business?

**1. Competitive Corporate Tax Rates.** Luxembourg offers competitive corporate tax rates compared to many other European countries, making it an appealing location for multinational corporations, particularly in the financial sector.

**2. Investment Incentives.** Tax policies that favor investments in technology and innovation have encouraged both domestic and foreign investments, further propelling economic growth.

**3. The standard VAT rate** of 17% is one of the lowest in the European Union, and there are reduced rates for essential goods and services. Lower VAT rates also make Luxembourg an attractive destination for businesses, particularly those involved in cross-border trade.

**4. Double Taxation Treaties.** Luxembourg has a wide network of double taxation treaties with many countries, which helps reduce the tax burden on cross-border income and investments.

**5. Participation Exemption.** Luxembourg provides a participation exemption for dividends received and capital gains realized from qualifying participations, making it an attractive jurisdiction for holding companies.

**6. Luxembourg has a robust and transparent regulatory framework** overseen by the Commission de Surveillance du Secteur Financier (CSSF), which ensures stability and trust in the financial market.

**7. The tax administration in Luxembourg** is known for being efficient and transparent, which can reduce administrative burdens for taxpayers.

**8. R&D Tax Incentives.** Luxembourg offers significant tax incentives for research and development (R&D), including tax credits and grants, to encourage innovation, economic growth and diversification of the economy.

**9. Startup Incentives.** The government provides various incentives and support programs for startups and small to medium-sized enterprises (SMEs), fostering entrepreneurship and innovation.

**10. Luxembourg offers tax incentives** for environmentally friendly practices and investments in renewable energy, supporting sustainable development.

These positive aspects contribute to Luxembourg's reputation as a favorable tax jurisdiction, attracting both individuals and businesses looking for a stable and advantageous tax environment.