

TAX INFORMATION NOTE

CAPITALISATION CONTRACT – LEGAL ENTITIES

The taxation applicable to a capitalisation contract is generally that of the country of your tax residence.

The information in this Tax Information Note is intended for legal entities established in Luxembourg. The information herein is without prejudice to future changes in legislation during the lifetime of the contract. It does not take into account the particular characteristics of individual situations. We therefore recommend that you seek advice from an independent legal and fiscal advisor, who will take into account your personal situation.

The information herein is applicable as of 1 January 2023, without prejudice to future changes to the fiscal treatment of the contract. This Tax Information Note is for general information purposes only and does not purport to be exhaustive. WEALINS S.A. may in no case be held liable by reason of this information.

Updated versions of this Tax Information Note are at the disposal of the policyholder upon simple request or by electronic means.

Any tax and duty, with retroactive effect or not, that may affect the contract will be at your charge or at the charge of the beneficiaries with respect to the expiration benefit. The same applies to all declaration obligations.

WEALINS S.A. offers capitalisation contracts for various countries. The features of each product are based on the law and regulations of a specific country. It is however important, in case of change of the policyholder's residence and in order to avoid undesirable fiscal consequences, that the latter checks if the essential features of his contract comply with the law of the country in which the policyholder intends to establish his new residence.

1. Financial Holding Companies (Sociétés de Participations Financières (« SOPARFI »))

1.1. Introduction

Under Luxembourg law, any corporation (legal entity) can take out a capitalisation contract, provided it is both in its interest to do so and compatible with its corporate objects as defined in the Articles of Association.

As capitalisation contracts are savings products, the Articles of Association of the SOPARFI must provide for the possibility of investing in that type of products.

A SOPARFI is a capital company that is fully taxable and the corporate object of which is the holding of financial participations.

1.2. Tax treatment

1.2.1. Corporate income tax (*Impôt sur le revenu des collectivités* - "corporation tax")

According to Article 159 of the Luxembourg Income Tax Act (LIR), corporations are fully liable to corporation tax if their registered office or administrative headquarters are in the Grand Duchy of Luxembourg.

Rates of corporation tax are as follows:

- 15% if the taxable income does not exceed EUR 175,000;
- EUR 26,250 plus 31% on the income that exceeds EUR 175,000 when the taxable income is between EUR 175,000 and EUR 200,000 ;
- 17%, if the taxable income exceeds EUR 200,000.

There is a 7% enhancement of the corporation tax payable as a levy for the Jobs Fund (fonds pour l'emploi).

The capital gain on a surrender of a capitalisation contract will be fully subject to corporation tax.

1.2.2. Local business tax (*Impôt commercial communal* – "ICC")

The local business tax, as its name implies, is levied only on business companies as defined for tax purposes (Art. 14 LIR). The taxable base for the ICC is the same as that for corporation tax (subject to some additions and deductions as per the ICC's real character).

This category of income is defined as income from "any continuous independent gainful activity (other than farming, forestry or the exercise of a liberal profession) carried on as part of the economy at large".

The rate of ICC in the case of entities based in Luxembourg City is 6.75%. Depending on the municipality concerned, the rate varies between 6.75% and 10.5%.

The capital gain on a surrender of a capitalisation contract will be fully liable to local business tax.

Corporations are always considered as business companies for the whole of their activities (par. 2(2) of the Local Business Tax Act).

1.2.3. Net Wealth Tax (*Impôt sur la fortune*)

Under the Net Wealth Tax Act of 16 October 1934, as amended, opaque corporations are subject to Net Wealth Tax. That tax is calculated on the corporation's "unit value" (valeur unitaire). In principle, this is the value of the corporation's net assets as re-valued following certain adjustments. The rate applied to taxable net wealth is 0.5%.

A reduced rate of 0.05% is due on the portion of the taxable net wealth that exceeds EUR 500,000,000.

Capitalisation contracts must generally be valued at their book value.

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Resident capital companies are also liable to a minimum net wealth tax of EUR 4,815 if the financial assets exceed 90% of the total balance sheet and the total balance sheet exceeds EUR 350,000. If one of these conditions is not met, then the minimum net wealth tax due depends on the total balance sheet

Total balance sheet (in EUR)	Minimum net wealth tax (in EUR)	Total balance sheet (in EUR)	Minimum net wealth tax (in EUR)
0 to 350,000	535	15,000,001 to 20,000,000	16,050
350,001 to 2,000,000	1,605	20,000,000 to 30,000,000	21,400
2,000,001 to 10,000,000	5,350	More than 30,000,000	32,100
10,000,001 to 15,000,000	10,750		

By financial assets one should understand long-term capital investments, loans to affiliated companies/linked by virtue of a participating interest, securities and assets held with banks/on accounts/as cash (accounts 23-41-50 and 51 of the standard chart of accounts (*Plan Comptable Normalisé*)).

1.2.4. Subscription tax (*Taxe d'abonnement*)

SOPARFIs are not subject to subscription tax.

2. Family Wealth Management Corporation (*Société de Gestion de Patrimoine Familial* (« SPF »))

2.1. Introduction

The SPF must be a capital company, either a private limited company (S.à r.l.), a public limited company (S.A.), a partnership limited by shares (S.C.A.) or a co-operative company organised in the form of a public limited company.¹

The objects of the SPF must be limited to acquiring, holding, managing and realising financial assets; it may not trade commercially. The financial assets in question may be financial instruments as defined in the Financial Guarantees Act of 5 August 2005, or cash or other assets of any kind held in accounts.²

SPFs are accordingly authorised to hold a wide range of financial assets reflecting all the investment opportunities available to a natural person privately managing his/her wealth.

2.2. Tax treatment

2.2.1. Corporation tax³

SPFs are exempt from corporation tax.

2.2.2. Local business tax⁴

SPFs are exempt from local business tax.

2.2.3. Net Wealth Tax⁵

SPFs are exempt from net wealth tax.

2.2.4. Subscription tax⁶

SPFs are subject to subscription tax at a rate of 0.25%, with an annual minimum of EUR 100 and an annual maximum of EUR 125,000 (one hundred and twenty-five thousand euros).

The taxable base for subscription tax is the amount of paid-up share capital plus any issue premiums and any debt in excess of eight times that paid-up share capital plus issue premiums.

3. The situation when a SOPARFI or an SPF takes out a capitalisation contract

	SOPARFI	SPF
Corporation tax and Local business tax	Any income accruing to the SOPARFI under the capitalisation contract will be subject to corporation tax and local business tax at a combined rate of 24.94% if the corporation is based in Luxembourg City in 2023.	Exempted
Net Wealth Tax	The capitalisation contract must be valued at its book value	Exempted
Subscription tax	SOPARFIs are not subject to subscription tax	The subscription tax of the SPF is calculated on a paid-up share capital base plus any issue premiums and any debt in excess of eight times that paid-up share capital plus issue premiums. In case of constitution or liquidation, the annual tax is calculated prorata to the number of days of existence.
Partial or total surrender of the contract	The capital gain realised by the SOPARFI is fully taxable	The capital gain will not be taxable because the SPF is not subject to corporation tax.

¹ Article 1 (1) of the SPF Act of 11 May 2007 (as amended by the Act of 18 February 2012)

² Article 2 (1) of the SPF Act of 11 May 2007 (as amended by the Act of 18 February 2012)

³ Article 4 (1) of the SPF Act of 11 May 2007 (as amended by the Act of 18 February 2012)

⁴ Article 4 (1) of the SPF Act of 11 May 2007 (as amended by the Act of 18 February 2012)

⁵ Article 4 (1) of the SPF Act of 11 May 2007 (as amended by the Act of 18 February 2012)

⁶ Article 5 (1) of the SPF Act of 11 May 2007 (as amended by the Act of 18 February 2012)

TAX INFORMATION NOTE

CAPITALISATION CONTRACT – NATURAL PERSONS

The taxation applicable to a capitalisation contract is generally that of the country of your habitual and fiscal residence.

The information in this Tax Information Note is intended for natural persons fiscally resident in the Grand Duchy of Luxembourg. The information herein is without prejudice to future changes in legislation during the lifetime of the contract. It does not take into account the particular characteristics of individual situations. We therefore recommend that you seek advice from an independent legal and fiscal advisor who will take into account your personal situation.

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Broad outline of the Luxembourg tax regime for natural persons

Luxembourg residents taking out a capitalisation contract with a Luxembourg-registered insurer are subject to Luxembourg tax law in relation to that contract, as explained below:

1. Tax treatment of premiums paid by the policyholder

The premiums paid to the insurance company are fiscally not deductible as the contract does not meet the criteria of article 111 of the Income Tax Act (LIR).

2. Tax treatment of sums paid out under capitalisation contracts

Any total or partial surrender may be made without fiscal consequences for the capital gains under the condition that the surrender is made after the first six months following the entry into force of the contract.

3. Inheritance tax

If the last residence of the policyholder was in Luxembourg, the surrender value of the contract will be part of his estate and will be subject to the Luxembourg inheritance tax rules according to the heir's degree of kinship.

In accordance with articles 16, 17 and 18 of the law of 28 January 1948 whose object is to ensure the fair and accurate assessment of registration fees and inheritance tax, upon the death of a policyholder last domiciled in the Grand Duchy of Luxembourg, WEALINS S.A. will inform the Luxembourg Registration & Estates Office of the names of the heirs receiving the contract as well as the contract value on the date of death.

Rates of inheritance tax vary according to the heir's degree of kinship with the deceased and the value of the heir's inheritance, as set out below:

- Children or descendants : **0%** for the share of the inheritance prescribed by law (over and above, taxation at 2.5% or 5%)
- from a spouse or civil partner under a legally-registered civil partnership entered into at least three years before the inheritance proceedings commence: **0%**
- from a brother or sister:
 - on amounts receivable under the intestacy rules: **6%**
 - on any additional amount: **15%**
- from an uncle or aunt and nephews or nieces, or from a parent by adoption:
 - on amounts receivable under the intestacy rules: **9%**
 - on any additional amount: **15%**
- from a grand-uncle or grand-aunt and grandnephews and grandnieces, or from an ancestor by adoption:
 - on amounts receivable under the intestacy rules: **10%**
 - on any additional amount: **15%**
- from any other relation, and from unrelated persons: **15%**

The rate of inheritance tax is increased, as set out in the table below, for any individual heir's portion the net taxable value of which exceeds EUR 10,000:

Scale	Enhancement	Scale	Enhancement
EUR 10,000 but not more than EUR 20,000	1/10	EUR 380,000 but not more than EUR 500,000	13/10
EUR 20,000 but not more than EUR 30,000	2/10	EUR 500,000 but not more than EUR 620,000	14/10
EUR 30,000 but not more than EUR 40,000	3/10	EUR 620,000 but not more than EUR 750,000	15/10
EUR 40,000 but not more than EUR 50,000	4/10	EUR 750,000 but not more than EUR 870,000	16/10
EUR 50,000 but not more than EUR 75,000	5/10	EUR 870,000 but not more than EUR 1,000,000	17/10
EUR 75,000 but not more than EUR 100,000	6/10	EUR 1,000,000 but not more than EUR 1,250,000	18/10
EUR 100,000 but not more than EUR 150,000	7/10	EUR 1,250,000 but not more than EUR 1,500,000	19/10
EUR 150,000 but not more than EUR 200,000	8/10	EUR 1,500,000 but not more than EUR 1,750,000	20/10
EUR 200,000 but not more than EUR 250,000	9/10	Over EUR 1,750,000	22/10
EUR 250,000 but not more than EUR 380,000	12/10		

Maximum rate of 48% (15% + (22/10 x 15%) = 48%)

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General exemptions

The following are exempt from taxes on inheritance and transfer on death:

- All inheritances and transfers on death in the direct line (with the exception of any share exceeding that prescribed by law for inheritance in the direct line).
- All inheritances and transfers on death from a spouse or from a civil partner, under a legally-registered civil partnership entered into at least three years before the inheritance proceedings commence.
- All inheritances and transfers on death where the value of the entire estate (less any debts) does not exceed EUR 1,250.

4. Wealth tax

N.a. (abolished on 1 January 2006).

