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Luxembourg Insights: Selected Cross-Border Fund Structuring Updates

Luxembourg continues to lead in cross-border fund structuring. Ahead of our briefing session on 23 September 2025, we spotlight three key changes and updates shaping the fund investment landscape in Luxembourg: An explanation of the Unshell Directive Proposal's abandonment and its implications for DAC6; a welcome clarification of the tax treatment of share class redemptions in Luxembourg; and a nuanced look at Pillar 2 implementation in Luxembourg, including geopolitical tensions and the US exemption stance.

I. Unshell Directive Proposal Abandoned

On 20 June 2025, after years of uncertainty, the EU Council officially abandoned the Unshell Directive Proposal dated 22 December 2021. Originally aimed at curbing tax avoidance via shell entities, the proposal immediately raised concerns amongst Member States due to overlaps with DAC6, warning of duplicative reporting obligations and increased administrative burdens. The Proposal created significant legal uncertainty from 2022 through 2025, prompting investors and businesses to reconsider their investment structures.

Member States now favour refining DAC6 hallmarks instead of introducing new legislation. Consequently, the Council decided to discontinue its analysis of the Unshell Directive Proposal. This decision reflects a shift toward regulatory efficiency and competitiveness, emphasizing refinement of existing frameworks.

II. Clarified Tax Treatment of Share Class Redemptions

The Law of 20 December 2024 introduces clarifications, grounded in recent case law, on partial liquidations involving share class redemptions. The law confirms that when specific cumulative conditions are met, such as full class redemption, distinct economic rights, and timely capital reduction, share class redemptions may qualify as a partial liquidation exempt from Luxembourg dividend withholding tax.

This is a significant development for fund structuring and investor exit strategies. However, it is important to note that the general anti-abuse rule remains applicable in cases of misuse.

III. Pillar 2 in Luxembourg – a brief review of the status quo and current challenges

The Luxembourg legislator has done a utmost to implement all relevant OECD guidance and related elections to keep the Luxembourg global minimum tax rules as flexible as possible. This is of particular importance to avoid unintended collateral damage for investment fund structures and, more generally, Luxembourg holding companies. In addition, a number of key concepts and definitions were clarified with the Pillar 2 amendment law to provide more certainty with regard to the practical application of the rules.

A key issue remains the aggressive US stance on Pillar 2. Following the Trump administration's threats to apply "revenge taxes" (which are unrelated to the current tariff discussion) on countries levying "unfair" taxes on US multinationals, an agreement to exclude US companies from the global minimum tax rules was announced after the recent G7 summit. The technical details remain to be clarified, especially with regard to potential similar requests by other important trade partners such as India and China.

Samantha Hauw
Partner
ATOZ Tax Advisers
Luxembourg
samantha.hauw@atoz.lu

Andreas Medler
Partner
ATOZ Tax Advisers
Luxembourg
andreas.medler@atoz.lu