

# Country experience: Luxembourg :e-commerce (merchandising) services

## Country experience: Luxembourg :e-commerce (merchandising) services

14.320. Luxembourg hosts an increasing number of subsidiaries of international groups<sup>[1]</sup> that provide worldwide e-commerce services and are active in well-diversified domains (distribution of music, audio books and audiovisual products, online trading platform services, operation of websites for the purpose of selling, auctioning, renting or otherwise distributing products and services, etc.). Thus, "service merchandising" has become one of the important components of telecommunications, computer and information services, audiovisual and related services, royalties or other business services.

14.321. Given the importance of the international transactions of such subsidiaries, the aim of Luxembourg was to include all of them in its monthly BOP report for services. While there are a few international groups that operate through different local operational entities, in most cases, the international groups act through a single operational legal entity with a low physical presence through which services are provided to a multitude of clients, especially inside the European Union, whereas expenses (i.e., imports) are often intercompany retrocessions in different forms of services (including royalties), both within and outside the European Union. Therefore, while the gross flows may be sizeable, in many cases, on a net basis, the international trade in services transactions nearly cancel out because the overall accounting result of the resident legal entities is often around zero, due to the intercompany retrocessions. Thus, because the value of merchandising services exported from and imported to Luxembourg is recorded on a gross basis, the resulting values may seem inflated, given the fact that there is a low physical presence of international groups in Luxembourg. That treatment is applicable because most of the firms hosted in Luxembourg trade services that are classified to the appropriate specific service classification (such as telecommunications, computer and information services, audiovisual and related services, charges for the use of intellectual property n.i.e. or other business services), and if the firms act as agents on a commission basis, only the commission is recorded as the service provided.

14.322. Luxembourg covers external transactions through its survey and completes monthly figures with an estimate for FDI income.

---

[1] By combining the advantages of both European directives (Council of the European Union directive 2002/38/ EC and Council of the European Communities directive 77/388/EEC), the subsidiaries from international groups providing e-commerce services were allowed to apply the Luxembourg rate of 15 per cent VAT on services provided, and not the higher VAT rates applicable in the country of residence of European clients.