



1. BACKGROUND: 1.1 Control premium is the additional price over the fair market value of a company that an investor may pay to gain control over that company. It is mainly due to the prospects of synergies and decision-making power that such an acquisition may bring. 1.2 In a recent decision, the Administrative Court of Luxembourg rejected the taxpayer's claim to add the control premium to the cost of acquisition of shares where the shares were acquired from its shareholders and the control premium was claimed to be received as a hidden contribution from those shareholders. 2. FACTS OF THE CASE: 2.1 The taxpayer was a Luxembourg company. Its entire share capital was held by P Ltd. P Ltd sold 45 per cent of shares in the taxpayer to Q Ltd, R Ltd and S Ltd. (all the shareholders of the taxpayer - P Ltd, Q Ltd, R Ltd and S Ltd - are collectively referred to as 'shareholders'). These sharehol.....