Liechtenstein: A Tax-Compliant, Attractive Financial Marketplace

By Dr. Norbert Seeger
CEO Seeger Advokatur
and ArComm Trust & Family Office

Liechtenstein cooperates internationally in tax matters. In the "Liechtenstein Declaration" of March 12, 2009, Liechtenstein committed itself to the OECD standards on transparency and information exchange in tax matters. On November 14, 2013, Liechtenstein announced a further government declaration confirming its commitment to tax cooperation on the basis of the OECD standards and setting out its position on future standards of Automatic Information Exchange (AIE).

At the beginning of 2013 an integrated financial marketplace strategy, which had been jointly developed by the government, business associations and active members of the financial market, was approved. This broadly supported strategy provided an important prerequisite for the successful further development of the financial center. Based on the "Liechtenstein Declaration" and subsequent tax cooperation agreements, the emphasis has been placed on Liechtenstein's international position in the financial marketplace as a specialist in asset development and estate management.

Tax information agreements

After implementing the "Liechtenstein Declaration" in 2009, Liechtenstein signed tax information agreements in quick succession. By the end of 2013 more than 30 OECD-compliant agreements on tax information exchange were completed. On November 11, 2009, Liechtenstein was able to record initial success in applying this strategy on international tax and supervisory standards, when the OECD removed the financial marketplace Liechtenstein from the "Grey List" of non-cooperating states in tax matters.

The OECD recognized Liechtenstein as a state that had implemented the international cooperation standards in tax matters. The OECD's "Global Forum Peer Group" also reached the same conclusion in its first review procedure on Liechtenstein: All the points of examination on the implementation of the OECD standards were seen as "fully compliant". The International Monetary Fund (IMF) confirmed that Liechtenstein fulfilled "the high standards of financial market supervision". The Financial Market Authority Liechtenstein (FMA) has been a member of the International Organization of Securities Commissions (Iosco) since 2011 and has observer status at the European Securities and Markets Authority (Esma).

The signing of tax information and double taxation agreements (DTAs) is at the center of Liechtenstein's future agreement strategy, which will culminate in a DTA network. In respect of tax agreements, Liechtenstein is endeavoring to establish extensive rules which will regulate untaxed assets.

Liechtenstein Disclosure Facility

The agreement with the UK is an example of Liechtenstein's innovative application of the "Liechtenstein Declaration". The "Liechtenstein Disclosure Facility" (LDF), which was negotiated between Liechtenstein and the United Kingdom in 2009, offers UK taxpayers with undeclared assets the possibility of regulating their tax obligation by April 5, 2016, in a speedy manner and at advantageous conditions. The LDF is an alternative to the Automatic Information Exchange. The advantage for the customers is that the protection of privacy lies in their hands, and no transfer of customer data to the UK tax authorities will be undertaken above and beyond those set out in the OECD standards.

Liechtenstein – United States

A special relationship regarding agreements has been developed with the United States. The first step was in 2001, when Liechtenstein entered into a Qualified Intermediary (QI) agreement, and one year later a bilateral legal assistance contract was signed. In 2008, even before the "Liechtenstein Declaration" with its general offer on OECD-compliant tax agreements, a Tax Information Exchange Agreement (TIEA) was ratified. The object of this agreement was to provide mutual support on information exchange for the purpose of applying and implementing tax regulations that are deemed important to the applicant state. Liechtenstein also undertook a commitment to provide administrative assistance in cases of tax evasion which, under U.S. law, is a fraudulent act, but according to Liechtenstein law does not constitute tax fraud.

Information exchange is on the basis of a precisely formulated request which is subject to special conditions. On March 20, 2012, Liechtenstein extended its administrative assistance law with the U.S. Since then, group requests about non-identified groups of taxpayers are permissible. The government justified this extension because of a new U.S. disclosure program which gives customers of Liechtenstein's financial market the opportunity of regulating undeclared assets. The implementation of the Foreign Account Tax Compliance Act (Fatca) will place higher care and duty as well as registration and reporting obligations on Liechtenstein's financial intermediaries.

Integrated financial market strategy
In 2013, the Liechtenstein government together with relevant business associations drew up an "Integrated Financial Marketplace Strategy" on the basis of the "Liechtenstein Declaration". The new strategy should strengthen the profile of the financial center by extending its competitive advantage and by adhering to international standards. The competitive advantages of the financial marketplace Liechtenstein are the customs and economic union with Switzerland, the Swiss franc as legal and reliable currency, unlimited access to the European market as well as the advantages of asset protection in the taxation of legal and natural persons.

Liechtenstein banks issued new guidelines on tax compliancy. These came into force on September 1, 2013. The guidelines are directed towards protecting the financial marketplace from untaxed assets and preventing international accusations of aiding illicit tax behavior. The standards reflect the "Charter of Quality" of the International Capital Market Association (ICMA) and were endorsed by the Liechtenstein Banking Association.

After the Council of EU Finance Ministers had presented the EU Commission with a mandate to negotiate with Liechtenstein on cross-border interest tax in May 2013, the demand arose for AIE. Liechtenstein decided to follow a pro-active policy on this matter and in the government declaration of November 14, 2013, set the course for AIE in tax matters on the basis of future OECD standards. Liechtenstein will follow procedures which are suitable for developing an appropriate model that safeguards tax compliancy for customers in Liechtenstein in the past as well as for the future.

A reliable and responsible partner
In the fight against money laundering and the financing of organized crime, Liechtenstein passed a much stricter legal assistance law for criminal offenses, enlarged the Financial Market Authority and tightened regulations on due care and attention. In the second phase, in the light of foreign demands for greater transparency in tax matters, the "Liechtenstein Declaration" of 2009 was issued, whereby Liechtenstein committed itself to the implementation of global standards of information exchange in tax matters as developed by the OECD.

By finalizing numerous tax information and double taxation agreements, Liechtenstein took its place as a reliable and responsible partner in the global community. The efforts made in the transformation process provided more legal certainty and compliancy for customers and partners in the financial marketplace Liechtenstein. Standard & Poor's awarded these efforts with a new, higher rating: On September 13, 2013, Liechtenstein, as one of only a few European countries, received a "AAA" rating with a stable outlook. S&P's recommended Liechtenstein, once again, as an attractive economic location with high stability.

admin@seeger.li
www.seeger.li

Automatic Information Exchange

As it was obvious that international developments were moving towards Automatic Information Exchange (AIE) as the global standard, the Liechtenstein government published its declaration on international tax cooperation on November 14, 2013. The government announcement confirmed Liechtenstein's commitment, as set out in the Liechtenstein Declaration of 2009, to the OECD standards on tax cooperation. The declaration emphasizes that Liechtenstein will recognize legitimate tax requests by other countries but, at the same time, will protect the legitimate interests of its financial marketplace customers, such as their right to privacy and confidentiality. On November 21, 2013, Liechtenstein signed the OECD Convention on Mutual Administrative Assistance in Tax Matters, which is the basis for information exchange on a multilateral level. In signing the convention, Liechtenstein confirmed its willingness to cooperate in tax matters on the basis of the widely supported international standards. The government declaration proclaims Liechtenstein's intention to sign agreements on AIE on the basis of future OECD standards with other states which have a legal footing and the ability to operate with complete transparency. Liechtenstein's focus is on the G5 states Germany, France, UK, Italy and Spain. In addition, Liechtenstein has declared its willingness to find joint solutions on AIE with other countries, which have not yet secured the necessary legal foundations. The government declaration emphasizes that tax cooperation is not just an agreement on information exchange and double taxation, but must also encompass other facets which safeguard tax compliancy in the past as well as for the future. Liechtenstein is determined to strengthen the legal position of its customers in the financial marketplace and, at the same time, to underline its reputation as a reliable partner.

An Attractive Tax Location

The new tax law, which includes an advantageous corporate tax, has placed Liechtenstein internationally in a favourable, competitive tax position. The modernization of the tax system is aimed at creating a sustainable, attractive financial working place. The European Union applauded the tax law which came into force on January 1, 2011. Taxable legal entities in Liechtenstein are now only subject to a flat rate profit tax of 12.5%. The new law waives levying capital gains tax as well as coupon tax (taxation on dividends). Independent of their legal form, all legal entities are subject to a minimum profit tax of 1'200 francs. Tax levels remain low when compared internationally. Private Asset Structures (PAS) are only subject to a minimum tax of 1'200 francs p.a. Profits, dividends or profits from sales, at home and abroad, are not subject to profit tax. There is no source tax on dividends and payments to proprietors. In order to encourage research and development in Liechtenstein, income generated from patents, trademarks and registered designs (licenses and royalties) will be subject to a lower preferential tax. By means of an "IP-Box" (Intellectual Property Box), 80% of the net profits gained from the use and exploitation of IP rights will be exempted from profit tax. This attractive level of taxation on income from intellectual property is open to all companies and is also recognized by the EFTA surveillance authority.