

## New Tax Law Enhances Attractiveness of Liechtenstein

Liechtenstein's new tax law will come into force on 1st January 2011

With the coming into effect of the new tax law on 1st January 2011, Liechtenstein has provided itself with an attractive, competitive and powerful tax law. This tax reform is closely affiliated to Liechtenstein's tradition of low taxation, but it also fulfils the demands for international compatibility and European legal conformity. The tax reform increases Liechtenstein's attractiveness by introducing a flat rate for active companies and tax privileges for private asset structures.

As part of this tax reform, Liechtenstein's goal was to adapt the current tax law, in accordance with the latest standards of international taxation, to the changing economic and legal framework at home and abroad. The pocket state will thereby continue to have an internationally competitive tax system at its disposal. The continuation of a beneficial taxation for active companies as well as managed asset structures, such as foundations, establishments and trusts, will allow Liechtenstein to position itself as an economic location and a successful international financial market place. The reform project aligns itself to the principle of revenue neutrality by not placing income for the state household as the focal point of the new tax law. Moderate taxation is, in fact, regarded as an investment in the future which should contribute to increasing the attractiveness of the Principality of Liechtenstein in international tax competition.

In addition to a company-friendly structure, the tax law distinguishes itself through simplified taxation of natural persons. Capital gains tax as

well as estate, inheritance and gift tax are waived.

### International Compatibility

Against a backdrop of an international tax debate and the massive pressure of several influential countries on "tax havens", Liechtenstein placed great importance on international compatibility and European legal conformity in its tax law. Thereby conditions were created to profit

### Modest Rise

With minimum tax on earnings Liechtenstein remains appealing

It is of decisive importance that Liechtenstein's Financial Market Place remains attractive as a location for foundations, establishments and trusts. The new tax law places special focus on the various structures of asset management. In particular, company tax, which was in danger of contravening the EEA ban on state aid, was rescinded and replaced by a minimum tax on profits of CHF 1'200.- p.a. This taxation will, in particular, affect companies which are commercially inactive Private Asset Companies (PVG) founded to manage asset investments of individual persons. With this modest increase, a minimum flat rate of CHF 1200.- per year, compared with the previous company tax of 1 per thousand on paid-up capital i.e. investment asset or at least CHF 1000.-, Liechtenstein remains an attractive location for private asset companies (PVGs). Experts envisage that the majority of legal entities which were subject to the special company tax in the past, will now qualify as a private asset company (PVG).

## Liechtenstein as a result of the tax reform has an attractive and international competitive system

from the opportunities and advantages which result from the international drive to avoid additional cross-border burdens. Through improvements to the framework it will be possible to act within the EU taxation guidelines, e.g. mother-daughter company guidelines or merger

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guidelines. The new tax law gives special consideration to the provisions of the EEA agreement whereby Liechtenstein has a legally secure and reliable tax law which is free of discrimination and restrictions. Special regulations, i.e. special company tax on domicile and holding companies have been abandoned in order not to run the risk of being classified by the EFTA supervisory authority as providing state aid.

### «Flat-Rate» for Companies

The reform of the tax law strengthens Liechtenstein's position as an internationally competitive location, the most important location factor being company taxation rates. In Liechtenstein, taxable legal entities that are commercially active are only subject to tax on earnings. The levying of tax on capital and coupon tax on securities has been waived. The new regulations on earnings set a flat rate of 12.5%, which is an incentive for high-return industries, small and middle sized companies to locate in Liechtenstein. This moderate tax on earnings is combined with an extensive exemption of returns on investments and equity profits.

By being able to deduct the interest on equity, which in times of economic difficulties amounts to noticeable tax relief, the current inequality between equity and borrowed capital has been abolished. The tax law creates a new modern taxation of com-

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panies which are part of a concern. This allows the balancing off of losses in a national or international concern within a set period. Through this new kind of taxation, Liechtenstein regains its tax attractiveness as a location for commercially active legal entities which diminished when various countries lowered their tax rates.

### Attractive Asset Management

The attractiveness of asset managed structures is a focal point of Liechtenstein's Financial Market Place. Liechtenstein has placed special emphasis, through the new tax law, on the taxation of various forms of managed asset structures especially foundations, establishments and trusts. Other associations such as joint stock companies can also be used by wealthy individuals to manage part of their wealth. Such legal entities are recognised under the new tax law as private asset companies (Privatvermögensgesellschaften "PVG") if they are solely used for asset management of natural persons and do not exercise any commercial activity.

## In Liechtenstein, active companies such as industrial concerns, small and middle-sized businesses are subject to a unified tax on earnings of 12.5%

The special company tax has been replaced by a legally conform European as well as an attractive, well-constituted, internationally unified taxation concept. The various kinds of funds or investment companies, in which numerous investors can bundle their asset investments, will be taxed comparable to legal entities on the basis of internationally compatible, transparent tax principles. Thereby Liechtenstein, as an internationally oriented financial marketplace, not only continues to have at its disposal an internationally attractive and competitive but also a European-wide recognised tax system which is conform with European Law. Companies which are not commercially active but serve to manage assets of individuals are placed under the newly created private asset companies (PVGs) and are regulated by an attractive tax system. The various forms of investment companies or funds are also governed by international compatible taxation. Private Equity Companies underlie either tax on earnings or, providing they fulfil the necessary conditions, are taxed as private asset companies (PVGs).

Once the special company tax has been rescinded, the private asset structures, as a new form of taxation, will provide the Financial Market Place in Liechtenstein with an attractive model for the taxation of man-

### Private Asset Company

The tax reform, in keeping with the traditions of Liechtenstein company taxation, placed special emphasis on maintaining the attractiveness of Liechtenstein for the management of assets. Foundations, trusts and establishments under Liechtenstein Law, as well as other legal entities such as joint stock companies can be used by wealthy private individuals to manage a part of their assets. Such legal entities can qualify as private asset companies (PVGs) if they are solely used for the management of assets of private individuals and exercise no commercial activities.

Private Asset Companies are not subject to the usual tax on earnings but are taxed by a minimum flat rate of CHF 1200.- p.a.. The new tax law thereby fulfils the needs of the financial marketplace for an internationally competitive tax on managed asset structures. The taxation of qualified private asset companies (PVGs) is now conform with the rules of the EEA which provides investors with legal certainty.

The introduction of a special tax system for companies which are solely used for the management of assets and are commercially inactive safeguards the appeal of Liechtenstein as a location for asset management. Collective capital investment as well as special funds for qualified investors are treated on the principle of tax transparency. Funds are thereby not taxable because tax is levied on the investment holder in their country of abode. Private equity companies in the form of private limited partnerships also enjoy this basic tax transparency. In the legal form of a legal person, private equity companies are either subject to tax on earnings or, providing they fulfil the legal requirements, are taxed as private asset companies (PVGs).

aged assets. On the whole, the tax reform increases, especially in connection with the new foundation law,

the appeal of the Liechtenstein Financial Market Place for foreign investors.

## With the new tax law Liechtenstein remains an appealing location for asset management as well as foundations, establishments and trusts

### Competitive Tax System

Through the general revision of the tax law which originated in 1961, Liechtenstein has enacted an historic and forward-looking tax law reform. The new tax law which is compatible with European Law increases legal certainty for customers and financial intermediaries. The result is that Liechtenstein, as an economic and fin-

ancial location, has an internationally competitive tax system at its disposal - not only attractive for commercial enterprises but also for holding companies. The new tax system allows Liechtenstein to continue to position itself as a successful international commercial location and financial market place.

### Summary of Services

- International financial, tax and business consulting
- Incorporation, domiciling and administration of domestic and foreign companies
- Consulting in international trade and financial transactions
- Legal representation in civil, administrative and criminal matters
- Investment consulting and investment management
- Trust administration
- Family office services
- Bookkeeping and auditing
- Intellectual property, licensing and franchising
- Legal opinions

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## F.L.BULLETIN

*During the first half of 2010, international financial market places were riddled with uncertainty which also affected Liechtenstein financial services. According to VAT data, turnover dropped during the first six months, however, the three major bank groups noted the first net increase of new money for the first time in two years. Banks took in net new money amounting to 2.3 billion Swiss francs.*

\*

*Liechtenstein exports increased in 2010. Direct exports abroad, excluding Switzerland, increased from January to August by 12.1%. The increase of exported goods to Asia was particularly strong reflecting a growth of 23.4% compared to the previous year. Exports to the USA rose by 17.7% while exports to European countries only increased by 6.9%*

\*

*After the employment losses in 2009, the total workforce in Liechtenstein increased in the first half of 2010. By the middle of 2010, the number of employed persons was around 33'300. Unemployment rates dropped continuously during the year and by the end of October stood at 2.2%*

\*

*Liechtenstein was actively involved in EXPO 2010 in Shanghai! Successful, when considering the export statistics: deliveries in the 3rd quarter of 2009 were valued at 38.7 million Swiss francs. Exports to China increased in the 3rd quarter to 49,5 million.*