



INDUSTRIE- UND FINANZKONTOR

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Facebook, Xing, Google, Twitter – in the *World Wide Web* there is hardly anywhere where we do not to a certain extent set aside our privacy. But only to a self-determined degree.

Privacy is a fundamental right which used to be embedded in most Western democracies. However, at the moment it seems that on a state level, this right is becoming increasingly meaningless.

Under general suspicion

Many nations cast themselves as controllers of their citizens, whom they fundamentally distrust. The trend towards «*transparent citizens*» has many faces. For example, it is reflected in the negotiated SWIFT agreement, whereby data from European bank clients can be passed on to the USA. It is also apparent in the struggle for the automatic exchange of information (for the time being) within the EU. Furthermore, it is present in the newly adopted US entry regulations, whereby immigrants may apply for an entry permit only by disclosing personal credit card information.

We are already on a path where every innocent citizen is placed under general suspicion. However in an increasingly connected world legitimate privacy must be protected at all costs!

Bank client confidentiality provides such protection. It is all too often misinterpreted. Unfortunately the term «*confidentiality*» has

a negative connotation. The necessity for bank client confidentiality arose from uncertainty surrounding political and economic turmoil in Europe in the 1930s and 40s. The awareness at that time that possessions and property were in jeopardy ran high. This has not changed. The uncertainty arising from the political and financial systems and the systemic debts are leading to an unhealthy and destructive urge for surveillance, which create an illusion of safety. The boundary between privacy and commonality is becoming increasingly blurred.

There is a great danger that not only capital will take flight in panic in the face of unwarranted control mania, but with it experts, work forces and tax payers. That is why the protection of legitimate privacy will develop into an important economic factor in the future!

Michael von Liechtenstein

The new Liechtenstein Tax Law

1961 – The old Tax Law dated back to this year, which now – after a total revision and an unused referendum period – looks completely different. With it the legislator has succeeded in creating an internationally compatible act and one which conforms with Europe, with interesting individual components.

In its September session the Liechtenstein Parliament passed a new Tax Law which would come into effect on 1st January 2011. Head of Government, Dr. Klaus Tschütscher said:

«This modern tax law represents a signal. ... Our ability to reform strengthens our small country in the current internationalisation and globalisation. That significantly improves the attractiveness and stability of the financial and industrial centre of Liechtenstein.»

The deciding criteria for the revision of the old Tax Law were:

- Fundamental attractiveness.
- Maintaining tax traditions.
- Obtaining neutrality in decisions.
- Guaranteeing tax fairness.
- The principle of simplicity and transparency.
- Preserving competitive ability and performance.

Generally, the principle of a once-in-a-lifetime taxation of earnings and incomes applies.

On the level of natural persons the capital tax will be integrated in the profit and income tax based on a standardised yield on assets (budget income). The yield's percentage will be fixed annually in the budget law (Finanzgesetz). For 2011 a yield of 4% is

planned. The profit and income tax occurs according to a progressive 7-stage-tariff. Estate and inheritance tax as well as gift tax are removed. Subsequently income from investments and capital earnings are tax exempt.

On the level of legal persons taxable net yields will be subject to a flat rate of 12.5% in the future. In addition an equity discount will be granted. The equity discount is based on the principle that equity should not be treated worse than borrowed capital.

In order to ensure a minimum taxation, such a minimum tax (regardless of the legal form) of CHF 1'200 is levied. This minimum tax must be paid in advance and is in the end credited to an effective tax burden.

The previous capital tax has been completely abolished. Similarly the legislator has abolished the (maximum 5%) distribution surcharge. Furthermore the previous 4% coupon tax is abolished (for existing old reserves the legislator foresees a transitional provision, which is explained under the heading *transitional provisions*). Dividend income, capital and liquidation gains will also be exempt from tax in future.

Losses can be carried forward without a time limit. In the global context Liechtenstein companies can profit from group taxation and equity amortisation. Subsequently group-bound companies are subject to the common arm's length principle.

Structures with the only purpose to administer assets (so called *Private Investment Structures*, such as for example Foundations or Trusts) will be subject to the minimum tax of CHF 1'200. Partnerships are newly subject to the principle of transparency and no longer, as was the case, to the Liechtenstein profit and income taxation.

The transitional provisions are configured particularly in the following way:

On existing old reserves per 31st December 2010, the coupon tax is still due. However, a payout of the old reserve within two years is not obligatory to benefit from a reduced tax rate. In fact, here the following possibilities exist:

- a) Payout of the old reserve or application for coupon tax invoice **within** the first or second year after the new Tax Law has come into effect. Thereupon a coupon tax of 2% is levied on the old reserve.
- b) Payout of the old reserve or application for coupon tax invoice **from** the third year after the new Tax Law has come into effect. In this case a coupon tax of 4% is levied on the old reserve.

The transitional provisions regarding the *Special Company Taxes* foresee that legal persons and trust companies, which – before coming into force of the new Tax Law – were still taxed according to the old Tax Law, are also taxed in the following five years (with the coming into force of the provisions of the *Private Investment Structures*) according to the old Tax Law. Hereby the legislator allows a transitional period of five years, within which the related adaptations can be carried out. This transitional period also applies, for example, to Foundations and Trusts. Only the minimum tax of CHF 1'200 is levied within the five year transitional period.

We must now await the executive order for the new Tax Law. As soon as we know its content and the implementation of the new Tax Law is sufficiently discussed, we will be able to inform you further.

The Liechtenstein financial centre

In the Agenda 2020 the Government of Liechtenstein sets decisive priorities. Liechtenstein was awarded a rating of «AAA» by Standard and Poor's. Furthermore the agreement portfolio for the financial and economic centre of Liechtenstein was expanded by two Double Taxation Treaties (DTT).

With the Agenda 2020 adopted in October, the Government of Liechtenstein takes into account the modified framework conditions, on which it bases its strategic objectives.

The six objectives focused on in the strategic compass are:

1. Utilise the opportunities of the small country in internationalisation.
2. Increase domestic legal capacity.
3. Maintain politico-economic legal capacity.
4. Strengthen the business centre.
5. Ensure the natural livelihood.
6. Increase the standard of living.

In relation to the financial and economic centre of Liechtenstein, it is expressly recorded in the Agenda 2020 that competitiveness, despite numerous attempts at integration, must be protected. This reflects the efforts of the Liechtenstein financial centre to continue to provide its clients with solutions in the area of asset protection and protection of legitimate privacy. Liechtenstein's approach, on the one hand, is to take into account the conditions of globalisation and on the other hand, to position itself as a small country in its sovereignty.

Liechtenstein has been rated by Standard and Poor's since 1996. The «AAA» rating of 2010 is the highest country award and corroborates Liechtenstein's 2005 rating.

Signed agreements:

USA	TIEA	on 08.12.2008
UK	TIEA/MoU/JD	on 11.08.2009
Luxembourg	DTT	on 26.08.2009
Germany	TIEA	on 02.09.2009
Andorra	TIEA	on 18.09.2009
Monaco	TIEA	on 21.09.2009
France	TIEA	on 22.09.2009
San Marino	DTT	on 23.09.2009
St. Vincent & the Grenad.	TIEA	on 02.10.2009
Ireland	TIEA	on 13.10.2009
Belgium	TIEA	on 10.11.2009
Netherlands	TIEA	on 10.11.2009
Antigua & Barbuda	TIEA	on 25.11.2009
St. Kitts & Nevis	TIEA	on 14.12.2009
Hong Kong	DTT	on 12.08.2010
Uruguay	DTT	on 18.10.2010

Chart: Agreement portfolio of Liechtenstein.

The deciding factors for the «AAA» rating from Standard and Poor's were:

- Liechtenstein's internationally competitive economy.
- The high degree of wealth of the citizens.
- The long political stability.
- The high level of productivity.
- The healthy national budget.

Standard and Poor's evaluated the partly high degree of specialisation of the Liechtenstein economy in sectors dependent on economic trends and the amount of exports as having a certain degree of risk involved. Nevertheless Standard and Poor's predicts stable development for Liechtenstein in the future. In particular, the currency union with Switzerland and the membership in the European Economic Area represent a solid basis.

In the meantime Liechtenstein's agreement portfolio (see I&F-News No. 4/November 2009*) was enlarged. A further Tax Information Exchange Agreement (TIEA) with the island state of St. Kitts & Nevis as well as two Double Taxation Treaties (DTT) with Uruguay and Hong Kong were signed. All agreements follow the OECD standard.

In particular the Double Taxation Treaty with Hong Kong is identified as a success. This Double Taxation Treaty opens the door to the Asian growth market to the clients of the Liechtenstein financial centre.

Furthermore, talks regarding a Double Taxation Treaty are currently taking place with Germany. Here, in particular the possibility of a compensation tax is being discussed. We will be happy to give you more information on this in due course.

*Some further information at this point: Previous publications can be retrieved from www.iuf.li > Publications.

Growth and Protection



Count Francis von Seilern-Aspang
Chief Executive Officer

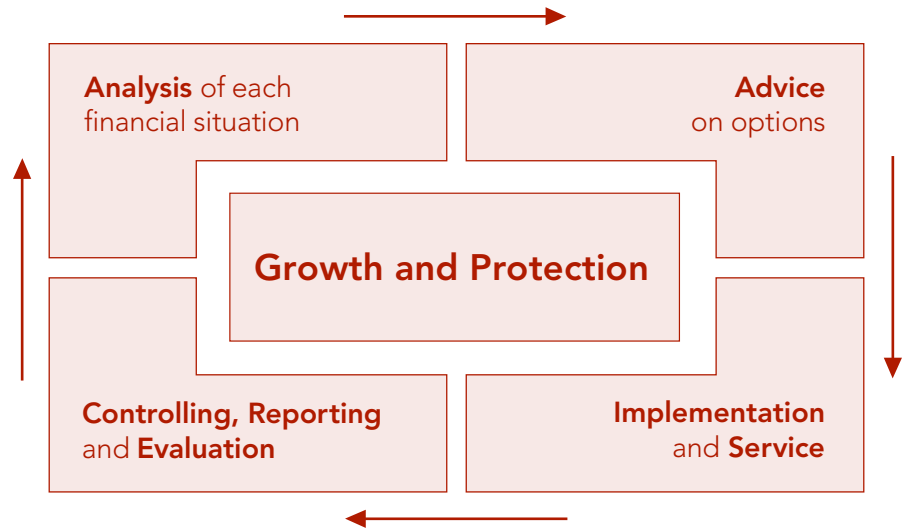


Chart: The principles of the I&F mandate management.

Dear Reader

Assets obligate and must therefore be protected – a realisation which we are aware of in our everyday business. Obligation means responsibility and protection requires confidentiality.

As a service provider we understand *servicing* and *performing* as a prerequisite in order to be able to sustainably shape the future. We offer our clients services in the area of asset structuring accordingly in order to guarantee the best possible growth and a legitimate asset protection.

Clients come to us with the widest range of different questions, for example:

- How can I also protect my family assets for future generations?
- How can I protect my private assets from unjustified attachment by third parties?
- How can I make sure that my business will continue, even after my death?
- How can I structure my company assets as best as possible?

Questions which are completely justified!

After all, in a changing world the structuring needs of assets may also change. What is appropriate today can become obsolete the day after tomorrow, because the private, economic or political framework conditions have changed.

Just like assets have a past, they also hold a future to the preparation of which we apply our know-how and long years of expertise; so to speak, as *«general contractor»*. In practice, the principles of the I&F mandate management work in the following way:

Analysis

Every asset situation is different. With this in mind, the first step is to analyse the objectives in terms of the future asset planning. The objective of the analysis is to find out the actual requirement of the client.

Advice

In this second step we advise the client on the different opportunities of asset structuring. Here we consider the advantages and disadvantages on all levels. The objective of the advice is to present the client with an objective basis to make a decision.

Implementation and Service

Analysis and advice is followed by implementation and service. We build and manage structures focusing on sustainability. The objective of the implementation and service is, firstly, to achieve growth; secondly, to simplify complicated structures; and thirdly, to ensure protection, as well as an efficient administration.

Controlling, Reporting and Evaluation

The structuring requirements of assets change with the times. We therefore regularly review asset structures with our client and adapt them where necessary. The aim is to always be one step ahead.

In our next newsletter we will explain the role of our finance and accounting system in the framework of the I&F mandate management.

Francis von Seilern-Aspang