

# THE LIECHTENSTEIN TAX ACT

On January 1, 2011 the Liechtenstein Tax Act entered into force. It replaced the Tax Act of 1961 which could no longer meet the requirements of the modern economy and society.

The Tax Act provides for moderate taxation regarding both natural and legal persons. It is internationally accepted and compatible and, in combination with the numerous Double Taxation Agreements, renders the Liechtenstein economy more attractive and competitive. This holds especially true for the financial services sector.

The following are some important aspects of the Tax Act.

## LEGAL ENTITIES

The ordinary taxation of legal entities takes place by levy of the profit tax with a tax rate of 12.5 percent, the minimum tax being CHF 1,800. However, the profit tax does not include all sources of income. In particular, the following sources of income are tax exempt: income from participations held (e.g. dividends), capital gains on and liquidation proceeds from participations held, income from foreign business premises as well as rental income from real estate property situated abroad.

Income from the exploitation of intellectual property rights, especially patents, is subject to the profit tax in the extent of 20 percent of the income only.

Moreover, the Tax Act currently provides for an interest deduction on own capital of 4 percent (this rate is set forth annually by Parliament). The tax base for profit tax is thereby reduced, which in turn leads to a reduction of the effective tax rate.

In contrast to the legal situation up until the end of 2010, the Tax Act does provide neither for taxation of the net assets of legal entities nor for withholding tax on dividends (coupon tax).

The Tax Act introduced provisions regarding restructuring as well as international group taxation. This provides legal and planning certainty for the economy, with its ever-increasing international integration.

## FOUNDATIONS AND TRUSTS

Foundations are subject to the ordinary taxation of legal entities, unless they qualify as a so-called Private Investment Structure (PIS). Foundations (as well as all other legal entities) qualify as PIS provided they do not carry out any commercial activity in pursuing their objectives. PIS are not required to file tax returns and only have to pay the minimum tax of CHF 1,800.

Generally, trusts only have to pay the minimum tax of CHF 1,800.

Charitable foundations may apply for tax exemption with the Liechtenstein Tax Authority, provided that the foundation is exclusively and irrevocably charitable active.

## NATURAL PERSONS

Natural persons are subject to property tax as well as income tax. Income from property which is subject to property tax is exempt from income tax. Capital gains from the sale of assets and profits from participations held are also exempt from income tax.

In Liechtenstein there is no inheritance tax and donation tax.

The Tax Act provides for the possibility that foreigners taking residence in Liechtenstein and not having any employment in Liechtenstein may do so based on a flat tax agreement to be negotiated with the Tax Authority according to their expenses. In such a case the property and income taxes shall not be applicable, which is advantageous in that the financial situation need not be disclosed.

## **CONCLUSION**

*The Liechtenstein Tax Act is internationally competitive and, in connection with well-known and attractive legal entities such as foundations, trusts and establishments, it offers clients a wide range of planning opportunities and perspectives in the field of wealth structuring, especially concerning the holding of participations, estate planning and asset protection, as well as for charitable and philanthropic purposes.*

*This diversity of opportunities in the Liechtenstein financial services sector, with its tradition and know-how, is embedded in a state which is distinguished by its political and economic stability. In this way, Liechtenstein provides clients with long-term planning certainty and wealth management solutions.*