

## **NEW TAX LAW**

### **Tax Reform Increases Attractiveness of Location**

The new tax laws which came into force on 1st January 2011, provide Liechtenstein with an attractive, competitive and powerful tax law. The tax reform is closely linked to Liechtenstein's tradition of low taxation and 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. Commercial enterprises are subject to an attractive general tax on earnings whereby asset management structures such as foundations, establishments and trusts are subject to a flat rate tax, this enables Liechtenstein to successfully position itself on the international finance platform.

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

The unequal treatment of own and borrowed capital has been offset by the deduction of interest from own capital. The new tax laws have introduced a form of modern group taxation for companies that are part of a concern. This allows companies, within a national or international concern, to balance off their losses, over a given period. With this new form of taxation, Liechtenstein regains its attractiveness for commercially operating companies, an advantage which had suffered through tax cuts in other countries.

### **Attractive Wealth Management**

Attractive Management Structures are of fundamental importance to Liechtenstein's financial market place. Liechtenstein's new tax laws focus on the taxation of different types of wealth management structures, especially foundations, establishments and trusts. Wealthy individuals can also benefit from managing a part of their wealth through a Public Limited Company. Such legal entities qualify under the new tax laws as Private Wealth Companies (PVG) if their only activity is the administration of wealth of a private person and no other commercial activity is undertaken.

Private Wealth Companies are not subject to normal tax on earnings but pay a flat rate of 1200 Swiss Francs per year. The new tax laws thereby fulfil the requirements of the financial market for an internationally competitive tax on asset management structures. The taxation of qualified private wealth companies conforms to the basic rules of the EEA agreement, thus providing legal certainty for investors.

The introduction of a special tax regime for non-commercial but purely wealth administering private asset companies, safeguards Liechtenstein's attractiveness as a location for asset administration. Collective investment and special funds for qualified investors will be treated in accordance with the principle of fiscal transparency. Funds are therefore not subject to tax, but tax is levied on the unit-holder in their country of residence. The principle of fiscal transparency also applies to private equity companies in the form of limited partnerships. As legal entities, private equity companies are subject to either normal tax on earnings or, providing they fulfill the legal requirements, be taxed as private asset companies.

### **Competitive Tax System**

Liechtenstein has, through its general revision of the 1961 tax laws, completed a historical and futuristic tax law reform. The new tax laws, which are compatible to European Law, provide increased legal certainty for customers and financial intermediaries. The result is that Liechtenstein's business and financial market place now has an outward-looking internationally competitive tax system which is not only attractive to commercially active but also to holding companies. The new tax system allows Liechtenstein to position itself as an internationally successful economic and financial location.