

Expense-Based Taxation Regime for Individuals in Liechtenstein

Your business and your investments are global – and so are you. Individuals are taxed on their worldwide income in almost every country. For wealthy internationals it can be quite burdensome and difficult to gather all the information needed for their domestic tax assessment. Liechtenstein lump sum tax (also called expense-based tax) offers an easy and attractive solution for individuals considering to relocate to Liechtenstein.



Introduction

Income tax is imposed on the annual total of expenses and no ordinary assessment is necessary. Many tax jurisdictions (e.g. some Swiss cantons and the UK) have abolished lump sum tax or increased the tax base lately due to a change in public opinion. Considering these global developments, Liechtenstein becomes an even more attractive tax jurisdiction for wealthy individuals.

Background

Liechtenstein grants foreign nationals a favourable taxation based on annual expenses if certain requirements are met. They can choose to be taxed based on their expenses instead of being subject to regular income and wealth tax. This kind of taxation is granted by the Liechtenstein fiscal administration only upon request. If the individual owns real estate in Liechtenstein, this is taxed under

ordinary wealth tax (so-called Sollertrag) with no deductions for liabilities or tax-exempt wealth. Given that only a part of worldwide income and wealth are taxed under expense-based taxation, a relocation to Liechtenstein may be attractive for wealthy foreign individuals.

Some Swiss cantons offer similar tax regimes to foreign individuals. However, expense-based taxation has been under scrutiny and many cantons have already abolished it. Some other cantons still offer this kind of taxation but have tightened the prerequisites to be met and/or have increased the tax base. In Liechtenstein, expense-based taxation is still broadly accepted and currently, no amendments of the tax law are planned.

Taking into account that the acceptance of favourable regimes for foreign individuals has been decreasing in many Swiss cantons, Liechtenstein may be an alternative to Switzerland worth considering.

Requirements

The following prerequisites have to be met in order to be granted expense-related taxation:

1. Taking up residence or habitual abode in Liechtenstein for the first time or after an absence of at least ten years.
2. No Liechtenstein citizenship.
3. No gainful activity in Liechtenstein.
4. To earn one's living from sources outside of Liechtenstein or one's own wealth.

Residence or habitual abode in Liechtenstein

According to the Liechtenstein tax code, a person's residence is in Liechtenstein, if the person lives there with the intention of staying there permanently. If a person stays in Liechtenstein not only temporarily, it is assumed that his/her habitual abode is in Liechtenstein. If a person stays in Liechtenstein for more than six months in a row, habitual abode is always assumed. Short interruptions are not considered in this respect. If a person

lives in Liechtenstein to study, for medical purposes or on vacation, the time period for the assumption of habitual abode is extended to twelve months.

No Liechtenstein citizenship

Only non-Liechtenstein residents may apply for expense related taxation. In case of double citizenship, lumpsum taxation will not be granted.

No gainful activity in Liechtenstein

Expense-based taxation is only possible if the foreign individual does not carry out any gainful activity in Liechtenstein. Income from capital (dividends, interest, capital gains) or from foreign sources are not considered harmful in this respect.

Tax Base and Rates

The sum of all the individual's expenses comprises the base for lump sum taxation. If the foreign citizen owns property located in Liechtenstein, the individual is subject to ordinary wealth and income tax for the local property only. Exemptions and deductions (e.g. for mortgages) which are normally granted to persons with unlimited liability to (ordinary) wealth and income tax do not apply.

The tax rate amounts to 25% of total annual expenses.

Request and Tax Assessment

If all of the aforementioned requirements are met, the foreign individual may apply for lump sum taxation. In the request, all expenses of one year must be listed.

The Liechtenstein Fiscal Administration considers the request and issues a notice in which it may alter the sum of expenses. If the sum of expenses is considered to be stable over the next years, the Fiscal Administration is able to determine the tax base for several years in advance.

Individuals subject to expense-based tax are not assessed (apart from local real estate, if applicable). They are obliged to pay the lump sum tax annually, in advance and without demand of payment by the Fiscal Administration.

Residence Permit

Foreign nationals who qualify for taxation based on expenses, may apply for the residence permit B. Due to the smallness of the country, only a limited number of residence permits are available each year.

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