

Lump-sum taxation in Liechtenstein – an overview.

Lump-sum taxation in Liechtenstein is a particularly attractive taxation model for wealthy individuals and their families who wish to transfer their residence or habitual place of abode to the Principality. This short article provides an overview of the legal basis, the requirements and the implementation of the lump-sum taxation.



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The topic at hand

Taxation based on expenditure or – as usually referred to – lump-sum taxation has been enshrined in Liechtenstein law for over 100 years. As the name suggests, taxation based on expenditure is not based on the actual income or wealth of an individual, but rather takes into account the cost of living of the taxpayer and their family members in Liechtenstein and abroad. Depending on the financial situation of the person concerned, lump-sum taxation can be a very attractive taxation model.

Who can make use of lump-sum taxation?

The legal basis for lump-sum taxation can be found in Art. 30- 34 of the Liechtenstein Tax Act. Based on these provisions, the following conditions must be met cumulatively in order to be subject to lump-sum taxation:

- The applicant must take up residence or habitual abode in Liechtenstein for the first time or after an absence of at least ten years;
- He must not have Liechtenstein citizenship;
- He may not pursue any gainful employment in Liechtenstein;

- The applicant's living expenses must be covered by the proceeds of his assets or other funds received from abroad.

How is the amount of the lump-sum tax determined?

As mentioned above, taxation according to expenditure is not based on the actual income or wealth of the individual, but on the worldwide living costs of the person concerned and their family members. Consequently, the applicant must provide detailed information on their expenses and those of their family members. The expenses calculated in this way are subject to a tax rate of 25%. In contrast to Switzerland, Liechtenstein does not require the submission of an annual control calculation; instead, the amount of living expenses is reviewed periodically. It should also be noted that the government has set an annual minimum tax of CHF 300,000. With a tax rate of 25%, this results in annual living expenses of at least CHF 1.2 million.

When does it make sense to apply for lump-sum taxation?

At the highest progression level, the worldwide taxable income of a Liechtenstein resident is subject to a national tax of 8% with different deductions applicable depending on family status. In addition, a municipal surcharge is levied, which varies depending on the municipality and is currently highest in Eschen and Mauren at 160%. This results in a maximum tax rate of 20.8%. This tax rate not only taxes income, but also a deemed income of 4% on taxable wealth (wealth tax is integrated into personal income taxes in Liechtenstein by assuming a fixed yield of 4% on taxable wealth).

Accordingly, for a person who lives solely from the income from their wealth, lump-sum taxation generally makes sense for taxable wealth of around CHF 38 million or more. In municipalities with lower municipal surcharges (minimum surcharge is 150%), this amount is around CHF 39.5 million. In all cases, however, the individual circumstances

and individual lifestyle must be taken into account when making a decision.

Does the lump-sum tax cover all taxes?

In principle, all income and wealth taxes are settled with the lump-sum taxation. However, the following are not covered:

- taxes on domestic real estate, which is always subject to wealth tax;
- real estate gains tax on any profit realised on the sale of a property located in Liechtenstein;
- other conditional or indirect levies such as motor vehicle tax, dog tax, etc.

It should also be noted that Liechtenstein does not levy gift or inheritance taxes, meaning that such transactions can be carried out tax-free in Liechtenstein.

How is the procedure organised and how long is the lump-sum taxation applicable?

Persons who fulfil the requirements for lump-sum taxation must submit an application for lump-sum taxation to the tax administration together with details of the expenses. Although there is no legal entitlement to approval of the application, experience has shown that the application will be granted in a formal decision if the requirements are met.

Among other things, such decision determines the tax amount and due date as well as the tax year from which the lump-sum taxation applies. The assessed tax amount must be paid annually in advance. In practice, the tax is assessed for a period of five years, after which it is extended on a yearly basis unless the tax administration or the taxpayer requests a new assessment before the due date. In principle, lump-sum taxation can therefore be applied indefinitely as long as the conditions are met.

Taxation based on expenditure ends with the foreign police deregistration of the taxpayers, the application for ordinary taxation by the taxpayers or – in the case of lump-sum taxed spouses – with the death of one of the spouses. In the latter case, the dormant estate of the deceased spouse is subject to wealth and income tax until inheritance. The surviving spouse is also subject to ordinary wealth and income tax unless he or she applies for the continuation of lump-sum taxation under the same conditions.

What impact does lump-sum taxation have on the application of double taxation agreements?

In general, persons subject to lump-sum taxation in Liechtenstein are deemed to be resident in Liechtenstein and can claim the benefits of the Liechtenstein DTA network.

What else needs to be considered?

In order to be able to take up residence or habitual abode in Liechtenstein, persons from abroad require a residence permit. The Free Movement of Persons Act provides for EEA and Swiss nationals and the Foreign Nationals Act for non-EEA and non-Swiss nationals to take up residence without

gainful employment. The prerequisite for such a residence permit is that the person is not in gainful employment in Liechtenstein and has sufficient financial means to avoid having to claim social assistance. The government decides on the authorisation to take up residence without gainful employment.

Accordingly, the immigration law provisions are consistent with the tax rules, under which individuals subject to lump-sum taxation in Liechtenstein are not permitted to engage in gainful employment within the country. However, it is compatible with lump-sum taxation for such an individual to perform a domestic activity, provided that it is limited to a position on the board of directors of a company without compensation and that the activity is limited to the management of the assets.

Conclusion

Lump-sum taxation in Liechtenstein offers wealthy private individuals favourable tax conditions. Clear conditions and transparent procedures enable a predictable tax burden. The combination with a politically and financially stable environment, an excellent location in the heart of Europe and an outstanding infrastructure in one of the world's most industrialised countries makes Liechtenstein an attractive global location for wealthy individuals.