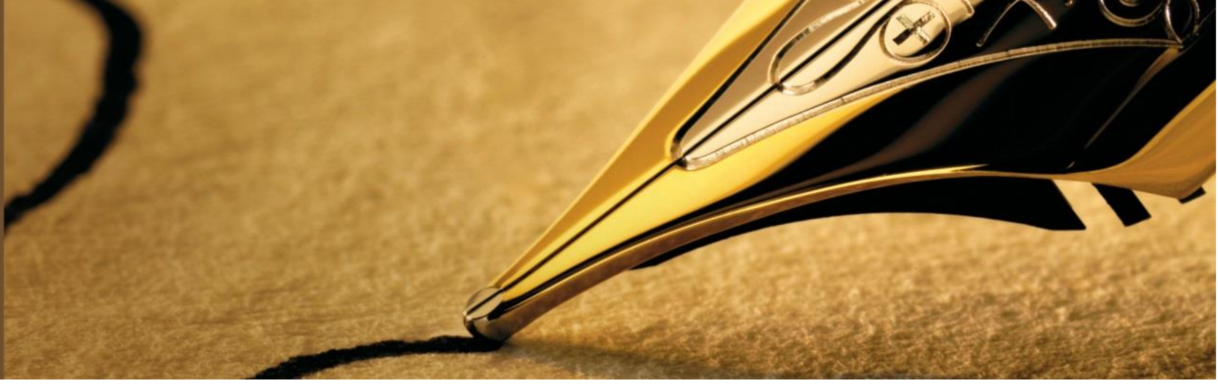


Newsletter December 2015

FINANCIAL REPORTING AND TAXES IN "LIECHTENSTEIN STRUCTURES"

The new tax legislation was introduced in Liechtenstein on 1.1.2011. The transitional provisions expired on 31.12.2013. A distinction is now drawn between "ordinary taxation" and the taxation of private asset structures (PAS). The following article highlights the main differences between these two forms of taxation.

Private asset structures

Private asset structures cover all legal entities

- that do not pursue any commercial activity
- that acquire, own, manage and sell exclusively financial instruments as well as investments, liquid assets and bank credit balances
- whose equities and shares have not been placed with the public
- that neither canvass for shareholders nor receive payment from these for their activity

Valuation of assets:

- Renting out property counts as an economic activity and is detrimental to PAS. Such properties may only be assigned to a beneficiary or shareholder free of charge.
- The granting of interest-bearing or interest-free loans is not permitted. An interest-free loan may only be granted to a beneficiary or shareholder as a permissible distribution (allocation of profit).
- Participations may be held if the PAS and its beneficiaries or shareholders do not exercise any control over the management of the holding company.
- All changes must be notified to the tax authorities.

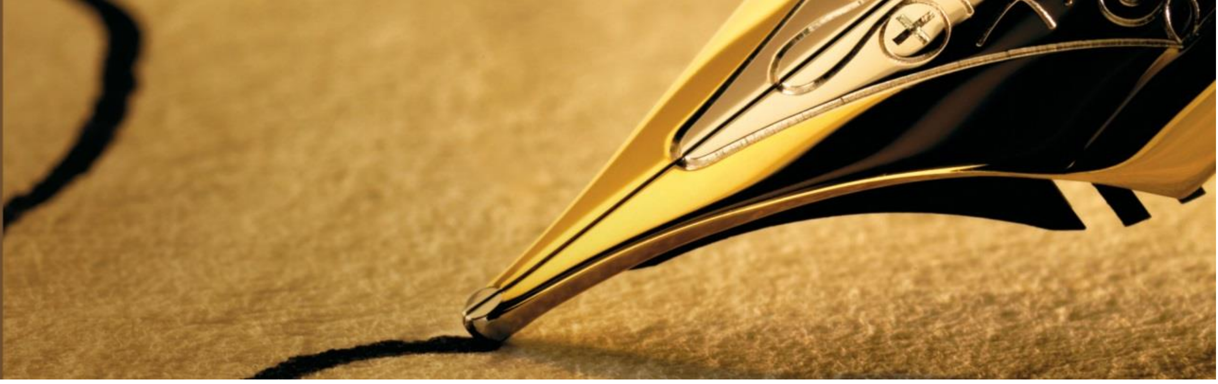
Further details can be found in the "Data Sheet on Private Asset Structures" by going to www.llv.li.

Standard taxation

Foundations, institutions with a similar structure to that of a foundation, as well as institutions which do not pursue any commercial operations are not subject to the accounting regulations of the PGR (Liechtenstein company law) but are nevertheless under a legal obligation to maintain a system of record keeping for normal taxation.

Valuation of assets:

- Securities are valued under commercial law at procurement costs or the lower market value.
- From the viewpoint of tax law, shares are treated as a participating interest. Capital gains and income arising from participating interests are tax-free. Deduction of interest on equity capital is not permitted.



- Capital gains and income arising from bonds and other assets such as e.g. structured products are taxable. The deduction of interest on equity capital is applicable.
- From the viewpoint of tax law, investment funds (subject to the KAG [Swiss Federal Act on Collective Investment Schemes]) are valued at the net investment value. Fund unit holdings enjoy an exemption from tax on earnings of between 35%-100%. The deduction of interest on equity capital is proportional to the material exemption from tax on earnings.

A deduction of interest on equity capital of 3.76% of the modified shareholders' equity is permitted. A positive net income can be reduced by the amount of the loss carried forward, up to a maximum however of 70%. In other words 30% of the annual profits must be taxed. From 2014, carry forward losses can be carried forward without any time limit.

The standard rate of tax on earnings is 12.5% (flat rate tax) and is not deductible. The minimum tax on earnings for all companies is CHF 1'200.
We have drawn up a plan of accounts which is recognised in Liechtenstein and meets the requirements for the tax return. We also possess in-depth knowledge on taxes and will be happy to produce your tax return for the Principality of Liechtenstein.

Please do not hesitate to contact the author if you have any questions or queries.

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