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**New Liechtenstein Tax law will be in force 2011**

The small principality of Liechtenstein will get a completely new tax law from January 1 st, 2011 on. After dealing with more or less the same tax provisions for the last 60 years this is something striking. The new tax law intends to be a modern tax law which should be compatible to other tax laws in Europe. It also should be based on the principle of “neutrality of decision” which means that choosing the form of an entity should not be based on tax reasons. Due to the principle that a tax should be implied only once the inheritance tax (and the like) shall be abolished completely.

What are the most important changes?

There will be a **flat tax of 12.5 % of the profits for all legal entities**. No difference shall be made as to the point of which activity these entities have and were these activities take place. There shall be a **minimum tax** for all legal entities of **CHF 1’200.00 a year**. Only small commercial entities will not have to pay this tax. The capital tax will be abolished completely.

**Losses may be carried forward** against future profits for an **unlimited period of time**. Of course this provision only applies to losses which are still existing on January 1 st 2011, which means that in 2011 the period of losses to be carried forward still will not exceed 5 years. It will be one year more each of the following years.

There will be a **deduction of 4 %** (may be change yearly) of the **modified capital** (special definition in the law). This deduction will be available for legal entities and for persons or partnerships equally, due to the principle of the “neutrality of decision”. The modified capital consists of the capital paid in and the reserves which represent own assets. Participations, foreign real estate or permanent establishments as well as assets which are not necessary for conducting the scope of the entity shall be deducted. The valuation will take place as at the start of each business year.

There will be **deduction for license fees** of 80 % of the income deriving from immaterial rights which seems to be an interesting opportunity for some companies.

**Restructuring** legal entities should be possible without adverse tax implications due to the new law.

There will be the **possibility of group taxation** if there is a group of entities with a Liechtenstein participant. Losses of foreign participations may be deducted in Liechtenstein if they are not deducted elsewhere.

**All special tax regimes will cease to exist** within the **next five years**. If an entity with a special tax regime does not do anything it shall be taxed with CHF 1’200.00 per year for the five years to follow. Anyhow any entity may apply to be taxed upon the ordinary rules (as described above) earlier.

There is **a new special tax regime** planned regarding companies which only hold and administer bankable assets. These should only be taxed with the **minimum tax of CHF 1’200.00**. Whether this tax regime will be incorporated in the law is not sure at the moment.

The **Coupon tax**, a tax of 4 % on the reserves of a company will be **abolished completely**. There will be a **special tax regime for old reserves** anyhow. If they are taxed deliberately within the two years **2011 and 2012**, the coupon tax will only be **2 %.** It shall be 4 % from then on again.

What's new for natural persons? As mentioned before, the **inheritance tax** and other corresponding taxes will be **abolished** completely. There will be a new tax system for natural persons, too, but the changes will be very moderate. There will also be **modifications** regarding the taxation of profits concerning the sale of **real estate**.

In the context of trying to get a **modern double tax treaty system** and taking into consideration that Liechtenstein is a member of the EEA (and thus has to follow the respective rules) the new Liechtenstein tax law is an interesting concept and it can only be hoped that it will be as flexible and long lasting as the old tax law, the country had before.

Besides to the local tax law, Liechtenstein and Switzerland have a (quasi identical) **VAT law** which has been **changed completely as of January 1st 2010**. As of **January 1st 2011** the VAT rates will increase as follows: The ordinary rate will increase **from 7.6. %to 8 %**, the rate for basic products will increase from 2.4 % to 2.5 % and the rate for the touristic business will increase from 3.6 % to 3.8 %. Relevant is the **period when the activity is performed**. If it is performed in 2010, the rate will be 7.6 %, if it is performed in 2011, the rate will be 8 %.