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LCG Treuhand AG
Bangarten 22 · LI – 9490 Vaduz · Tel.: 00423 371 12 12
www.lcg-liechtenstein.li · office@lcg-liechtenstein.li

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The following text is an excerpt from the LCG-brochure "Business Liechtenstein Company Formation".

May 2013

Your LCG Team

Trading Company in Liechtenstein

I. Concept of the trading company in Liechtenstein

Liechtenstein trading companies are the companies with legal personality and equivalent legal entities (juridical persons) as well as the companies without legal personality with firms.

1. Companies with legal personality or legal entities (juridical persons)

Pursuant to the Liechtenstein Persons and Companies Law (PGR, Personen- und Gesellschafts-recht), legal entities are corporately organised associations of persons and dedications of assets. On the one hand, it covers bodies under private law, i.e. the registered association in Liechtenstein and capital companies such as the Liechtenstein public limited company (PLC., Corp.) and limited liability company (LLC., Ltd.). On the other hand, the Liechtenstein establishment, the foundation as well as the trust enterprise (trust reg.) are likewise legal entities in Liechtenstein.

When founding a Liechtenstein legal entity, a sales charge (in the case of the founding of a Liechtenstein public limited company [PLC., Corp.] or limited liability company [LLC., Ltd.]) or formation tax (in the case of the founding of a Liechtenstein establishment or trust enterprise [trust reg.]) incur if their capital exceeds the amount of CHF 1 million. The tax rate is 1% of the capital exceeding the amount of CHF 1 million. This tax rate is reduced to 0.5% for the capital exceeding the amount of CHF 5 million; to 0.3% for the capital exceeding CHF 10 million. If the capital is under CHF 1 million, no taxes usually incur with the founding of a juridical person.

2. Companies without legal personality

With the exception of the general partnership and limited partnership, including the general partnership with limited liability and the limited partnership that has no absolutely liable partner (Kommanditärengesellschaft), the companies without legal personality have neither legal capacity nor the capacity to sue and be sued. Only the partners, however, can appear in a lawsuit.

The Liechtenstein limited partnership is especially characterised by the fact that it includes partners with limited liability as well as partners with absolute liability. In the case of a general partnership in Liechtenstein, by contrast, all partners are absolutely and jointly liable.

Within the framework of the formation of a company without legal personality, no taxes incur as a rule.

II. Founding of a trading company in Liechtenstein

The prerequisites for the formation of a Liechtenstein trading company follow the legal form given in each case.

In addition, both natural persons and juridical persons commercially active in Liechtenstein require a trade licence from the Amt für Volkswirtschaft (Office of Economic Affairs). Only those professions are exempt from this that require a licence under another, special law, such as: attorneys at law, physicians, other health professions, asset managers, trustees, architects and engineers. An activity is commercial when it is conducted independently, regularly and with the goal of attaining income or other economic advantages.

Domicile companies, i.e. companies that are only domiciled in Liechtenstein but are not commercially active domestically, are exempt from the requirement to obtain a licence from the Liechtenstein authority.

III. Advantages in terms of the founding of a trading company in Liechtenstein

1. Tax advantages

The new Liechtenstein tax law that came into effect as at 1 January 2011 has created a fiscal law in Liechtenstein that is internationally compatible and conforms to European law. The improvements in the area of the taxation of Liechtenstein companies are described below.

1.1. Income tax flat rate

Active income is taxed in Liechtenstein by the proportional tax rate of 12.5%, at least however with CHF 1,200 annually. Taxation is limited to the taxable net income. The net income under commercial law is to be reduced by earnings from foreign permanent operations, rental profits from foreign real estate, dividends, capital gains as well as the so-called equity return deduction of presently 4% on modified equity. This equity return deduction reduces the taxable base and lowers the effective tax rate.

A three-year transition period, as of 1 January 2011, applies to all domicile and holding companies existent as at 31 December 2010. During this transition period, they are subject only to the minimum income tax of CHF 1,200 annually.

1.2. Tax exemption

Income from the trading with and the keeping of securities is exempt from any taxes in Liechtenstein.

The capital tax was abolished through the Lichtenstein tax reform. Dividends from the interest held in domestic or foreign juridical persons as well as capital gains from the sale of investments in domestic or foreign juridical persons are exempt from taxation in Liechtenstein. Liechtenstein's legislators have allowed a complete participation deduction, independent of the amount and holding period of the investment.

The distribution surcharge as part of the income tax and the coupon tax is also omitted. Old reserves existing as at 31 December 2010 do not fall under the abolition of the coupon tax. Within the first two years, until 31 December 2012, the old reserves can be distributed at a lower tax rate of 2% or carried forward. As of 2013, the tax on reserves not settled reserves will be 4% again.

1.3. Group taxation and unlimited loss carried forward

With regard to group taxation, the losses arising within one year can be offset by gains in the same year from other domestic and foreign group companies. The prerequisite, however, is that the applicant juridical person is subject to unlimited taxation at home and holds a controlling interest in domestic or foreign juridical persons. For juridical persons with limited tax liability, it is possible under the condition that the investments can be allocated to a branch in Liechtenstein. If interests are not 100% controlling, a pro-rata loss allocation is allowed. The right to group taxation, however, is given upon application.

The loss carried forward is unlimited in time in Liechtenstein. The consequence is that losses can be offset by later taxable gains for an unlimited period of time.

1.4. Privileged taxation of income from intellectual property rights

The new Lichtenstein tax law has fixed the privileged taxation of intellectual property rights (IP). With the aid of the so-called Intellectual Property Box (IP-Box), 80% of the proceeds from intellectual property rights, created or acquired as of 1 January 2011, are exempt from taxation. Patents, brands, models and registered designs are considered intellectual property rights in Liechtenstein, provided that they are protected by entry into a domestic, foreign or international registry. Other rights, such as copyrights, know-how or trade relationships, are not considered intellectual property rights; therefore they do not enjoy privileged treatment in Liechtenstein.

1.5. Privileged taxing of companies with the tax status of a personal wealth structure (PVS, Privatvermögensstruktur)

For juridical persons whose sole purpose rests in asset management and that are not active commercially, the legislator in Liechtenstein has intended new tax privileges that are entailed in their qualification as personal wealth structure (PVS). Companies with PVS tax status are allowed to acquire assets, own them, manage and dispose of them. This activity is limited to the passive attainment of income from the assets, excluding any form of commercial trading. A PVS is allowed to hold investments in other companies only if it does not exert any real influence on the management of the affiliate. In addition, the owner of a PVS is not allowed to be an entrepreneur himself. Rather, he has to be a natural person, a company with PVS tax status or a person who acts as intermediary for account of these two groups.

The PVS is only subject to the minimum income tax of CHF1,200. Beyond that, no income tax is levied.

1.6. Value added tax

The general value added tax rate on goods deliveries and services stands at 8.0% in Liechtenstein. A reduced value added tax rate of 3.8% or 2.5% is applied to certain essential goods.

2. Other advantages of Liechtenstein

Neither an office nor staff have to be kept in Liechtenstein. On account of an agreement, the management of such domiciliary companies can be done by a trustee in Liechtenstein.

Provided that the business premises are within the EU, the EU freedom of establishment applies and thus the legal protection of the EU.

In addition, Liechtenstein has excellent bank secrecy.

LCG Treuhand AG
You can contact the author at:
Tel.: 00423 371 12 12
office@lcg-liechtenstein.li