Liechtenstein: Time To Dismiss The Old ‘Tax Haven’ Label

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In the last decade, the financial services sector has seen states and institutions manifest a precipitously aggressive appetite for ‘big data.’ The increasing digitisation of the financial economy has enabled most services to comply with this demand. However, there is a fine balance that needs to be struck. It must be accepted that wealth preservation is the valid and legitimate right of any family, and, needless to say, this protection of wealth ought to be done within the legal framework of laws. Laws must nevertheless respect the rightful demand of client confidentiality, which should not be forfeited in the combat against terrorism and tax evasion. When going through the history of Europe (and countries further afield), you may ask the question of who destroyed the most fortunes, and you may be disappointed when you find that they are precisely the bodies which you elected – the state and its institutions!

Liechtenstein realized after 2008 that it had to open fast so as to provide transparency within international regulations. Small countries such as Liechtenstein are very much dependent on cross-border activity and on the acceptance of such activity by foreign states where clients ultimately live. The old ‘tax haven’ label is one which can be dismissed. Liechtenstein has become transparent in its activity, and is working towards cooperation and the establishment of a framework of regulations that satisfy both the needs of foreign states and institutions, and the wealth preservation needs of clients. Liechtenstein, of course, has the added advantages of being politically stable and of having a highly qualified workforce and authorities with a service-minded attitude – this inevitably bolsters the country’s credibility as a respectable party.

The increase in legal, tax and financial consultancy

Wealth preservation is growing globally because there is increasingly more money in the world to be preserved. The ‘level playing field’ enforcement by states and institutions, and the assessments undertaken by these, have, over the last two to four years, given Liechtenstein the assurance that most financial centres have the same, or at least similar regulations. Clients value Liechtenstein’s political and economic stability, as well as the first-class quality and efficiency of its consultancy. The country has therefore preserved its niche in wealth preservation, and has in recent years seen its legal, tax and financial consultancy services grow – the probable result of Liechtenstein’s transparent and reliable approach, alongside the inflow of the world’s increased wealth.

BEPS discussions: Both helpful and unhelpful

Liechtenstein has embraced the tax treaty network and has found it to be relatively helpful. Liechtenstein has proven its ability to negotiate double tax treaties

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to support wealth preservation through foundations and companies. This has enabled business to shift to new niches within the financial services sector, attracting more clients as a consequence.

The overall reckoning, however, is that the BEPS discussions managed by the OECD are not particularly helpful to small states. The OECD wants to save taxes where the labour force is located, and not so much on capital, knowledge and finances – Liechtenstein’s three strengths. This puts small states such as Liechtenstein in a delicate position as borders are not freely open to the labour force, given the restrictions of surface, the impact on emissions and the need for some level of population control. The unhindered opening of borders has the potential to cause social unrest. Intelligent cooperation with international organisations and states is therefore important to safeguard the positive growth and developments Liechtenstein has made in recent years.

Transparency and Cooperation are not Sufficient
Mastering big data is a challenge. Liechtenstein is an early adopter of the Common Reporting Standard (CRS) and has already begun the automatic exchange of information. The CRS goes far beyond the US FATCA reporting requirements however, and this inevitably puts added pressure on human and technical resources, both of which are needed to identify and feed the required data into the IT systems for the purposes of the exchange.

The problem above all is that individual state benefits, gained or lost, are not adequately managed by existing regulation. How can states, which provide more data than they receive, be financially compensated, for example? What is the financial benefit gained by states that receive the data? This needs to be evaluated. Costs most certainly cannot be fully charged to clients. We also realize that more partners in the financial sector, in Liechtenstein and abroad, are avoiding or hindering cross-border activity to side step high compliance costs. While there may be many clients demanding financial services, these individuals cannot find partners because they are no longer served. This mainly applies to banks who are turning increasingly more clients away, since, in the banks’ view, these individuals do not generate enough income to cover the compliance costs. So, one of the big questions is how to provide services to cross-border clients still looking for good partners but who simply have not found the services they need due to cost/income-driven compliance calculations.

The BEPS discussions are ongoing, and Liechtenstein must demand its legitimate rights with respect to the European Union’s Parent-Subsidiary Directive, for example. The question is, to what extent can smaller states join forces to get the rightful portion of the business?

It seems that the regulations emanating from the likes of BEPS, FATCA and CRS are a push by large states to stop cross-border activities into the smaller, more flexible and service-oriented states. Transparency is not sufficient, cooperation is not sufficient, and the standard which is being implemented is arguably an attempt by large states to ‘convince’ their residents that cross-border activity is no longer attractive. The small states, therefore, have to find their niche, which they surely will. The discussions will go on, and we will have to see by 2020 where we are.

BEPS, FATCA and CRS Will Not Slow Growth of Wealth Preservation Services
The wealth preservation services, which go beyond asset protection, will continue to grow, even in a climate where BEPS, FATCA and CRS strengthen their hold. Wealth preservation is the legitimate right of any family and there is no reason why this need would change. However, if the larger states and institutions continue to impose ever more stringent restrictions, individuals aiming to protect their wealth may set up their own mechanisms to counteract these changes. In the recent months, there has been a huge increase in the demand for second passports and changes in domicile. Increasingly more states are offering good programs that enable clients to obtain passports and residences. I don’t, however, believe that this is in the interest of the OECD member states.

But, what is it that families seeking to protect their assets finally get?
I am of the opinion that the sector can grow if it works towards finding and offering the right solutions. Richer families are able to move around and, while doing so, should be sure in the knowledge that their assets are being managed legally, within what has the potential to be a better structured system.

Liechtenstein: A Leading Financial Centre for Private Wealth
Liechtenstein’s unique selling points are not obvious at first glance – they are experienced when doing business in-country. Nevertheless, Liechtenstein is, first and foremost, a liberal democracy with solid government finances (including an AAA credit rating). The country has the advantages of being a member state of the European Economic Area and of the Swiss Customs Union. All legislation related to companies, foundations and trusts is solidly instituted (much of the legislation goes back to 1926 and is partially within the EU harmonization directives).

Aside from economic and political stability, Liechtenstein also has a culture of being correct and honest. This is reflected in the high credibility of the nation’s workforce, both in the public and in the private sectors.

It also has to be borne in mind that Liechtenstein’s economy is not only buoyed by the financial services sector, but by other industries which constitute 50 per cent of the country’s economic activity. Liechtenstein is a nation that prides itself in being transparent, and in delivering quality across all its services.

In Summary
Cross-border wealth preservation services are here to stay, and projections are that they will in fact grow. The question of course is, to what extent can we satisfy expectations in this world of transparency and compliance? As mentioned, Liechtenstein understands the advantage it has in having a highly educated work force which is able to provide answers that cannot always be supplied by other country and state competitors.

A healthy future is there to be grasped – the onus is on wealth management services to identify and contact potential clients, to understand their needs and to provide the adjusted consultancy they require. The whole business is fast changing, stemming from digitisation, increased regulation and the request for long-lasting solutions. Expectations have to be managed and the changes which are coming into play have to be recognised and balanced when providing consultation. We have to prepare for changes which might have financial impact, be it negative or positive.

Finally, I am convinced that we will succeed – certainly more convinced today, than I was just two years ago.