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Taxation according to expenditure (lump-sum tax) – Articles 30-34 of the Liechtenstein Tax Act (Steuergesetz)

Requirements and person liable to tax

Taxation according to expenses, or lump-sum tax, was incorporated into tax legislation as early as 1923 and 1961. For a taxpayer to be eligible for lump-sum tax, they must fulfil the following requirements:

- The applicant must move their primary or habitual place of residence to Liechtenstein. If they were previously resident in Liechtenstein they must have been absent from the country for at least 10 years before moving back.
- The applicant must not hold Liechtenstein citizenship.
- The applicant must not be gainfully employed within Liechtenstein.
- The applicant must live off revenue from their asset or other income generated outside.

Object of taxation and tax rate

Lump-sum taxation is only granted following an application to the tax authorities. The application must give detailed information regarding the applicant’s living expenses.

This is because the lump-sum tax due is determined on the basis of the total annual living expenses of the person being taxed and their family members (inside and outside Liechtenstein), rather than according to actual income or assets.

Before approving an application for lump-sum tax, the tax authorities will demand a lump-sum minimum tax. This minimum tax was originally set at CHF 100 per year back in 1923. In 1995, the government raised the minimum tax to CHF 300'000, and it has remained at this level ever since.

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Since 2013, the tax rate has been set at 25% of expenditure. At this rate, the minimum tax of CHF 300'000 would normally be levied on expenditure of CHF 1.2 million. Accordingly, lump-sum taxation is worth considering if you hold assets in the amount of CHF 30 million or more.

Procedure

A formal ruling is made on all applications for lump-sum tax. This ruling will state the amount of tax due and the period for which the tax assessment is valid. The amount of tax due will initially be fixed for five years, and must be paid in advance each year. The assessed figure will be automatically carried over to the following year unless either the tax authorities or the taxpayer request a reassessment.

Bear in mind that lump-sum tax does not cover wealth tax payable on real estate within Liechtenstein, real estate gains tax and income taxes levied on Liechtenstein companies. However, any assets belonging to a lump-sum taxpayer are not subject to gift tax or inheritance tax.

Residence permits

Before individuals from other countries can take up primary or habitual residence in Liechtenstein, they must obtain a residence permit. The Liechtenstein Act on the Free Movement of Persons for EEA and Swiss citizens (*Personenfreizügigkeitsgesetz*) and the Liechtenstein Foreigners Act (*Ausländergesetz*) allow people to take up residence without being gainfully employed. However, if an individual is not employed, they will only be granted a residence permit if they are not engaged in any permanent and regular employment outside of Liechtenstein either. Individuals applying for lump-sum tax are therefore not allowed to take up any employment, either in Liechtenstein or abroad. However, such individuals may, as a general rule, act as a member of a governing body within a company managing their own assets (provided this does not result in their engaging in any actual employment). Similarly, serving on the supervisory board of a large company does not constitute employment.

It is therefore fair to say that Liechtenstein's lump-sum taxation regime is very attractive in comparison with other countries.

The author of this article, Jürg Brinkmann, of Allgemeines Treuunternehmen, will be pleased to provide you with further information. The content of this issue of ATU Info is provided for information only and is not intended to replace legal advice.