

## Liechtenstein Remains an Attractive Financial Market Place

Amendments to the law and international agreements safeguard the future

Over the past few years the Principality of Liechtenstein has focused on embedding its financial centre within the European regulatory area. Although small but widely diversified as an internationally integrated economic location, Liechtenstein fulfils today international standards, in particular, the application of the law and the supervision of the financial market place. Through previous and future efforts, the future of this important sector especially for the Liechtenstein economy will be safeguarded in the long term.

The Principality of Liechtenstein, compared internationally, enjoys a high standard of living. The income per capita of approx. 100'000 Swiss Francs exceeds noticeably the income in all other European countries. The State possesses substantial reserves and unemployment is less than 3 %. The economy is – contrary to common belief – widely diversified. A highly specialised industry operates worldwide exporting 98 % of its products. Numerous Liechtenstein companies are leaders in their particular field. Nearly 45 % of all employees are working in the industry and generate 40 % of the gross wealth of the country.

### Importance of the Financial Sector

The financial market place also makes an important contribution to the country's prosperity: although only employing 15 % of all employ-

ees, it contributes to nearly 30 % of the country's revenue and furthermore finances around 40 % of the national budget.

If you add the income of the branches depending on the financial mar-

ket place i.e. construction, catering and various suppliers, the tax contribution of the financial market place is considerably higher. In the face of this economic and income structure, it is obvious that the State will do everything to maintain the basis of prosperity and to safeguard it through sustainable growth.

### Liechtenstein Integrated into Europe

Liechtenstein has been a member of the European Economic Area (EEA) since 1995 to which all the EU States

### In the Future with FUTURO

Under the name «Futuro», the Principality of Liechtenstein has created a vision for the future of the financial market place which not only takes the requirements of the financial sector into consideration but also the country's economy as a whole. The goal is to secure sustained growth.

The vision is based on the traditional strengths of the market place and focuses on Private Wealth Management, drawing more benefit than previously from the alliance with the European and Swiss Economic Areas.

Furthermore the vision demands the creation of a unique legal environment, the adherence to the highest international standards in the application of law, the drawing together of a pool of top-class experts as well as the professional international marketing of Liechtenstein as a location worldwide.

## Since 1995 Liechtenstein has adopted approximately 5000 EU directives into State Law.

belong including Norway and Iceland. As a result of this obligation through its membership, Liechtenstein has since then adopted approx. 5000 EU directives and integrated them into State Law.

The majority of these regulations pertain to strengthening and mod-

ernising the financial market place. Consequently a Financial Intelligence Unit (FIU) was created to combat money laundering and the entire financial sector was placed under the supervision of the Financial Market Authority (FMA).

Further emphasis was, among other things, a total revision of the law on Mutual Assistance in Criminal Matters, tightening the Due Diligence Law, passing of a bill on investment companies as well as adopting the EU Financial Market Directive (MiFID) which offers a unified framework for the provision of stocks and shares services and investment activities.

### International Cooperation

At the same time, international cooperation was strengthened through various agreements:

- In 2002 an agreement on judicial assistance was finalised between the Principality of Liechtenstein and the United States of America. It serves to protect the international financial markets against terror, organised crime and economic crime.
- An agreement between the EU and Liechtenstein regarding tax on interest came into force in 2005. Since then Liechtenstein levies a withholding tax on interest paid to individuals residing in an EU country, 75 % of which flows back to the country of residency.

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- Equally Liechtenstein has negotiated an agreement with the EU on its participation in the Schengen/Dublin Accords. Enactment is imminent.

### IMF Praises Liechtenstein

Liechtenstein's efforts to adapt its national laws to high international standards – many are the highest within the EU! – and to strengthen international cooperation in the Financial Sector, have not gone unnoticed. In 2002 and 2007 the International Monetary Fund (IMF) conducted assessments in Liechtenstein on the quality of the financial market place and gave the country an excellent reference.

### Effects of Joining the EEA

Entering the EEA has provided new opportunities for the financial sector:

- Thanks to the unified licensing of banks, EU banks can settle in Liechtenstein and Liechtenstein banks can set up branches in the EEA. Currently there are 16 banks operating in Liechtenstein servicing customer assets of 200 billion Swiss Francs.
- Through the EEA the establish-

## Liechtenstein offers to all States comprehensive cooperation, providing they are prepared to collaborate fairly and constructively.

ment of an insurance location has been made possible. The supervisory insurance law of 1996 created an advantageous framework for life, damage and re-insurance companies. Today 37 insurance companies operate in Liechtenstein with a premium volume of almost 7 billion Swiss Francs; 96 % of which is life insurance.

- Liechtenstein has also gained importance as a fund location. In 2007, 303 national and 246 overseas funds offered their products, administering customer assets of 30 billion Swiss Francs.
- Finally, the introduction of a new wealth management law opened new possibilities. 90 companies with customer assets of 21 billion Swiss Francs were operating in Liechtenstein in 2007.

### Financial Market Place Reform Continues

Liechtenstein undertook the reform of its financial services sector in the year 2000.

Since then numerous changes to the law have been implemented and important international agreements reached strengthening Liechtenstein's position and its reputation as a financial market place.

This reform process continues:

- An important element of this reform is the recently issued law on foundations in which the rights and

obligations of the testator und the beneficiaries are re-defined, placing foundations under the supervision of a newly created foundations supervisory body.

- A second emphasis is the revision of tax law which supports and safe-

guards in the long-term Liechtenstein's attractiveness as an economic and financial location. It latches on to the tradition of a low and competitive taxation system taking the legal obligations of EEA membership into consideration.

### Cooperation on Tax Matters

«With the finalisation of the fraud agreements we would be moving towards a European common denominator with regard to taxation. We have made our contribution towards the success of negotiations to date. (...) In the face of international trends, towards strengthening cooperation on taxation and the offers of cooperation already made during the previous months, the time has come to base our system of judicial and administrative assistance in the field of taxation on a new footing. In future, we should offer extensive cooperation to all those states who are prepared to seek with us reasonable solutions for increased client relationships and who are interested in fair and constructive cooperation in the future.»

(H.S.H. Hereditary Prince Alois von und zu Liechtenstein in his address on the national holiday on 15th August 2008)

«The policy of the Liechtenstein Government was and is to embed Liechtenstein step by step in an international set of rules and standards that on the one-hand would guarantee our sovereignty as member of the Council of Europe, the United Nations, the World Trade Association and the European Economic Area (EEA) and, on the other hand, to allow Liechtenstein's economy to access international markets. (...) In cooperating in the prosecution of crime with regard to indirect taxation e.g. VAT, Liechtenstein has already taken on the European standards in signing the membership agreement to the Schengen area in February. (...) In the case of direct taxation e.g. income tax, this means comprehensive judicial and administrative assistance in the case of tax fraud and similar crimes as agreed in its substance in the fraud agreement negotiated in June of this year.»

(Prime Minister Otmar Hasler und Deputy Prime Minister Klaus Tschütscher in an article in the «Frankfurter Allgemeine Zeitung» on 9th August 2008)

## The protection of privacy and estate in Liechtenstein remains uncontested.

- The third element is in its substance the already negotiated agreement with the EU on fraud. The negotiated definition of fraud basically covers all offences in connection with indirect taxation.

### Strong Protection of Privacy

Protection of privacy and estate remains unchallenged. Liechtenstein's economic system offers incentives for individual performance and assigns great responsibility to individuals and companies for the functioning of the society and economy. Consequently there is extensive protection of privacy to which bank customer secrecy belongs.

## F.L.BULLETIN

*A study commissioned by the Government of the Principality of Liechtenstein analysed economic development since the year 2000. The main results of the study are as follows:*

- *The Gross Domestic Product (GDP) stagnated in the years 2001 and 2002 and was even in slight recession during the years 2003 und 2004 before increasing for the first time again in 2005.*
- *National income decreased by 6 % between 2000 and 2005. The main reason was a significant drop in the flow of assets from abroad, in addition to,*

*the increased salaries of foreign commuters in which case assets flowed the other way. If these influences are disregarded, the assets of households increased by 14 %.*

- *Employment growth in the Liechtenstein economy continues; between 2000 and 2006 the number of jobs increased by 13 %.*
- *Export profits are currently 42'000 Swiss Francs per capita; between 2000 and 2007 exports increased by 37 %.*
- *With a net wealth of 60'000 Swiss Francs per capita, the national household finds itself in a comfortable position.*

\*

*On 29th October 2008, a new agreement between Liechtenstein and the USA on the exchange of tax information was initialled. It guarantees, as of the tax year 2009, the exchange of information on US taxpayers with assets in Liechtenstein who are suspected, according to US Law, of tax offences. This is not an automatic exchange of information but an exchange in accordance with clearly defined criteria.*

\*

*To strengthen its economic and cultural presence in Germany, the Principality of Liechtenstein has established two Honorary Consulates in addition to the Embassy in Berlin. The first was opened on 17th October in Frankfurt am Main, the second followed in Munich on 6th November 2008.*

### Summary of Services

- International financial, tax and business consulting
- Incorporation, domiciling and administration of domestic and foreign companies
- Consulting in international trade and financial transactions
- Legal representation in civil, administrative and criminal matters
- Investment consulting and investment management
- Trust administration
- Family office services
- Bookkeeping and auditing
- Intellectual property, licensing and franchising
- Legal opinions

ADVOKATURBÜRO

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