Switzerland and Liechtenstein initial income tax treaty

Executive summary

On 2 February 2015, after long and intensive negotiations, representatives of Switzerland and Liechtenstein initialed a comprehensive double tax treaty. Though the two countries are neighbors and despite the extensive treaty network of Switzerland, there has not been a comprehensive double tax treaty with Liechtenstein to date. The two countries have certain bilateral regulations to predominantly rule the work of cross-border commuters adopted in a limited treaty in 1995.

Detailed discussion

While the text of the treaty will not be published before signing, the parties have announced that the treaty shall basically follow the Organisation for Economic Co-operation and Development (OCED) model treaty. In this context, the regulations regarding withholding taxes are essential. According to a treaty originating back almost 100 years, the national currency of Liechtenstein is the Swiss Franc. While investments in Swiss Franc for Liechtenstein investors have been limited in Liechtenstein itself, a wide variety of bonds and shares are available in Switzerland. However, the investments in home currency have been discriminated by high Swiss withholding taxes for many decades since Switzerland imposes a withholding tax of 35% on interest on bonds and bank deposits as well as on dividend payments. Due to the lack of a treaty, such Swiss withholding tax is not currently refundable to Liechtenstein resident persons. In contrast, Liechtenstein has abolished its withholding tax of 4% levied on dividends, bonds and certain commercial loans in the tax reform of 2011 and will phase out the imposition of withholding tax by the end of this year.

According to the press release issued by the Liechtenstein Finance Minister on 5 February 2015, the treaty will provide for full relief of withholding tax on dividend payments to corporate investors with a certain shareholding percentage and pension funds as well as on interest payments. Portfolio investors as well as private
individuals will be subject to a 15% non-refundable withholding tax burden on dividend income which is the standard rate according to the model treaty.

The highly debated taxation of cross-border commuters will remain as it is agreed so far: The taxation is limited to the country of residence with the exception of employees of governmental bodies. In addition, the Liechtenstein withholding tax on payments for rents to private individuals shall be abolished.

The parties have expressed their intention to sign the treaty this summer. The ratification procedure will take some time. According to the press release, the treaty is currently expected to enter into force as of 1 January 2017.

It is expected that the landmark progress in preventing double taxation will intensify the business relationships between Liechtenstein and Switzerland. Investors with cross-border relationships between Liechtenstein and Switzerland should review their operations.

For additional information with respect to this Tax Alert, please contact the following:

**Ernst & Young Ltd., Zurich**
- Daniel Gentsch  +41 58 286 3613  daniel.gentsch@ch.ey.com

**Ernst & Young Ltd., St. Gallen**
- Roger Krapf  +41 58 286 2125  roger.krapf@ch.ey.com
- Matthias Scheitlin  +41 58 286 2077  matthias.scheitlin@ch.ey.com

**Ernst & Young LLP, Switzerland Tax Desk, New York**
- Thomas Semadeni  +1 212 773 8442  thomas.semadeni@ey.com
- Peter Dormann  +1 212 773 9931  peter.dormann1@ey.com
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited.
All Rights Reserved.

EYG No. CMS204

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com