

Austria Aims for Tax Agreement With Liechtenstein

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Reprinted from *Tax Notes Int'l*, April 30, 2012, p. 414

COUNTRY DIGEST

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The Austrian government has announced its intention to negotiate a bilateral withholding tax agreement with Liechtenstein and to finalize it by the end of April.

The Liechtenstein agreement should focus not only on bank accounts, but even more, on undeclared investments held in Liechtenstein foundations (*stiftungen*), the Austrian government said. However, Finance Secretary Andreas Schieder noted that unlike the negotiations with Switzerland, talks with Liechtenstein might be more cumbersome, both legally and politically. Questions often arise about transparency and the beneficial ownership of assets held by foundations, he said.

Vice Chancellor Michael Spindelegger of the Austrian People's Party agreed, saying Austria needs some time to draft a reasonable agreement that has the backing of Chancellor Werner Faymann of the Social Democratic Party. Faymann also maintains that negotiations with Liechtenstein's team of negotiators could take longer than with the Swiss team.

Fewer Austrian residents are believed to have money in Liechtenstein banks (about €150 billion) than in Swiss banks (€2.97 trillion). Thus, if the Liechtenstein agreement were to mirror the Swiss agreement, Austria would receive only about €50 million in additional tax payments from undeclared assets in bank accounts.

In the case of Liechtenstein, however, it is not the bank deposits that are of particular interest to Austrian authorities; rather, most assets "hidden" in Liechten-

stein by Austrian taxpayers are held by foundations, which number about 50,000 in a country less than double the size of Manhattan (160 square kilometers).

Foundations offer a particular feature that appeals to some taxpayers: The beneficiaries generally are not identified in public documents. An Austria-Liechtenstein agreement that is based on the rationale of the Swiss agreement but focuses on foundations would be much more complicated to administer. While the banking market consists of a specific number of banks with access to a large number of customers, the number of foundations, as previously noted, is extremely high, and each foundation has only a small number of beneficiaries.

Katja Gey, director of Liechtenstein's Office of International Affairs, said the goals of any future negotiations with Austria will be the total modification of the existing income tax treaty between the two countries and a solution to the problem of untaxed assets from previous years. Meanwhile, the plan is to tax the future income of Austrian residents with assets situated in Liechtenstein — for example, by imposing a withholding tax on earned income at the same rate as Austria's capital gains tax.

Although the talks between the two countries have been ongoing for a long time, it appears that Austrian Finance Minister Maria Fekter is paying more attention to Liechtenstein now that the agreement with Switzerland has been sealed. ◆

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