Case Study – Structuring Wealth

Target group	**Objective**
Private Individual, tax subject in the United Kingdom	Tax Disclosure

Initial situation

Mr U is resident and domiciled in the UK. Shortly after the demise of his father some ten years ago he found documents in his late father's safe which showed that many years before, his father had settled a foundation in the Principality of Liechtenstein which held bank accounts with Swiss and Liechtenstein banks. Mr U's mother explained that these foreign assets derived from some lucrative European businesses and that his father had deposited the earnings in the Liechtenstein structure as a save haven. After two world wars and a quasi confiscatory tax regime in his home country, he wanted to ensure that there was some family money available in case of more political catastrophes.

Mr U (and Mr U's mother) had accepted his father's rationale and had left the foundation untouched except for occasional holiday money which he took in cash during his stays in Switzerland. Neither he nor his mother disclosed the foundation to the tax authorities in the UK and no taxes on income and capital gains which accrued in the foundation's bank accounts were paid.

Mr U has come to the decision to clean up the past and regularise his and his mother's tax affairs.

Approach

On 11 August 2009, the Government of Liechtenstein and the HMRC have signed a Tax Information Exchange Agreement (TIEA) and a Memorandum of Understanding (MoU) relating to the cooperation in tax matters according to OECD standards. The MoU includes the so-called "Liechtenstein Disclosure Facility", or LDF, which is available to individuals and entities that have financial relationships in Liechtenstein. The explicit aim of the parties is that after the disclosure period of five years, there are no UK tax payers anymore with Liechtenstein assets who are in breach of the UK tax laws. In short, the following Terms and Conditions apply:

Terms and Conditions of the Liechtenstein Disclosure Facility

Which assets are within the scope of the LDF?	▪ bank and financial accounts ▪ legal entities such as foundations, companies, trusts
How will assets outside Liechtenstein be treated?	▪ As long as the UK tax payer has at least one Liechtenstein connection , his or her worldwide assets may be included under the LDF
How long does the LDF run?	▪ 5 years, ending 31 March 2015, but there are deadlines within the LDF. For existing relationships in FL, the entire disclosure procedure will take less than three years, counted from the notification received from the Liechtenstein financial intermediary.
Look-back period?	▪ maximum 10 years (6 years in case of "innocent error"
Tax rate?	▪ Either a single composite rate of 40% per year on the unpaid composite income, profits, gains etc., or ▪ the actual or reasonably estimated tax liability for each year
Which taxes fall under the LDF?	▪ All taxes, including VAT, stamp duties, inheritance tax etc.
Penalty	▪ Interest and 10% penalty on all unpaid taxes ▪ no penalty in case of "innocent error"
TIEA-requests by the UK authorities	▪ not during the 5-year LDF period

Please contact your swisspartners adviser in case you wish to receive more information and support in this matter.