LDF

General Information

On August 11, 2009, the Government of Liechtenstein and the Government of the United Kingdom signed a Tax Information Exchange Agreement (TIEA), as well as a Memorandum of Understanding (MoU).

The TIEA calls for an exchange of information on request and in clearly justified cases according to the OECD standard.

However, this TIEA foresees a unique protection from tax information exchange for UK tax periods up to March 31, 2015, for Liechtenstein's clients (certain exceptions).
The MoU sets out the terms of a five-year taxpayer assistance and compliance program and the special Liechtenstein Disclosure Facility (LDF).

The Joint Declaration sets out the context and development opportunities (Double Taxation Agreement) for the future.

The LDF is a bespoke service to support the reviews to be carried out by the financial intermediaries in Liechtenstein to identify those who may be liable for UK tax. The LDF offers UK residents with unpaid tax and investments or assets in Liechtenstein the possibility to regularize their tax affairs very quickly and with particularly favorable conditions – with a great likelihood to be the most favorable conditions currently available. The LDF will run from September 01, 2009, to March 31, 2015.

Who is affected by the “LDF” agreement?

The agreement affects all natural and legal persons who are liable to UK tax with assets or interests in Liechtenstein, e.g. bank accounts/deposits, companies, partnerships, foundations, establishments, trusts, insurance policies issued, formed, founded, settled, incorporated, administrated in Liechtenstein.

Who is eligible to participate?

Therefore not only existing clients of Liechtenstein financial intermediaries can make use of the special disclosure arrangements agreed with the UK in the LDF but also new clients who establish relevant connections with Liechtenstein. A meaningful relation to Liechtenstein financial intermediaries is required at the time of the LDF application.

To whom does the LDF apply?

Those with undisclosed UK tax liabilities connected with

- existing assets in Liechtenstein.
- overseas assets outside of Liechtenstein but who acquired a meaningful asset or an interest in an asset in Liechtenstein anytime between September 01, 2009, and March 31, 2015.

What are the benefits?

The tax liability under the LDF is limited to 10 years as opposed to the normal 20 year rule. Other benefits include:

- Interest and penalty of just 10% on unpaid taxes.
- As a rule guaranteed immunity from prosecution for tax-related offenses.
- Ability to conduct initial "no names" discussions with HMRC (Her Majesty's Revenue & Customs), prior to making a disclosure.
- Under the LDF, inheritance tax will also be limited to 10 years, which is a significant concession in relation to inherited wealth.
- Tax withheld under the EU Savings Directive can be offset.
- Optionally, a simplified Composite Rate Option (CRO) of tax (40%) with the potential for significant inheritance tax savings could be used instead of a calculation of the actual tax liability using applicable tax rates.

Can clients wait until 2015 to take action?

Though the facility is available until March 31, 2015, it is important to take action now.

There is a misconception that those with undisclosed liabilities will be able to wait until 2015 and submit a disclosure for the ten years prior to that date. If the disclosure is delayed until 2015, the period that would have to be included in the disclosure is April 06, 1999, to April 05, 2015 – it is not a rolling ten-year window.

Additionally, some of the key aspects of the LDF (the CRO and the guaranteed 10% penalty) are only available for the tax period April 06, 1999, to April 05, 2009.

Thereafter, standard tax rules will apply including, from April 06, 2010, an increase in the top rate of tax from 40 to 50%. Furthermore the current penalty regime in the UK is much more stringent, particularly in respect of undisclosed offshore assets.

Those with undisclosed UK tax liabilities should consider making an LDF disclosure now for all years up to and including April 05, 2009. It follows that the self-assessment tax return for 2009/10, which is not due to be submitted until January 31, 2011, can be filed on a correct basis thereby avoiding penalties altogether.

Who is currently using the LDF?

- Those who have "inherited" a problem.
- Professionals (e.g. lawyers, accountants, barristers) with overseas assets who are particularly at risk in terms of prosecution.
- Those who have unrecorded trading income going back many years.
- Taxpayers who have been through a previous investigation but who did not disclose all overseas assets.
- Elderly people who want their tax affairs resolved to ensure future generations do not inherit a problem.
- Those who are genuinely worried about the existence of the overseas asset and want their tax affairs be in order.
- Those who require an injection of capital in the UK, whether to purchase an asset or to invest funds in a UK business, given the difficulties borrowing from financial institutions in the current economic climate.
- Trustees and directors of overseas companies who wish to resolve legacy issues.

How can VP Bank help?

VP Bank is pleased to support those clients who wish to take advantage of the LDF and looking for a dedicated, professional and sustainable service.

VP Bank's client advisors will be delighted to hear from you.

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More information

- International Tax Agreements
- Liechtenstein Disclosure Facility - LDF (HM Revenue & Customs)
- LDF Factsheet (PDF, 149 KB)

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