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'Thousands' of warning letters sent to Liechtenstein account holders

Banks based in Liechtenstein, the Alpine tax haven, are sending thousands of letters urging clients to come clean with UK authorities or face having their accounts closed, ahead of new laws coming into force in six weeks.

Two weeks ago, the principality of Liechtenstein passed laws under which every bank account will be subject to a mandatory tax audit, following an agreement with the UK Government last August.

Banks in the region are now sending letters to thousands of their UK clients, instructing them to prove that they do not have a UK tax liability, or to make a disclosure under a tax amnesty being run by HM Revenue & Customs. If they fail to do so, their accounts will be closed, according to commercial law firm and tax investigation specialists McGrigors.

HMRC said it hopes to claim around £1bn from the estimated 5,000 UK account holders in the region under the new laws. Critics are sceptical that so much will be clawed back. During the initial stages of the Liechtenstein Disclosure Facility, the government collected about £135m (€155m) in taxes against a prediction of £500m, according to accountancy firm PricewaterhouseCoopers.

Jason Collins, a partner in the tax investigations team at McGrigors, said: "This is the endgame for taxpayers with undeclared income in offshore accounts. These letters are likely to trigger a flood of disclosures from taxpayers with accounts in Liechtenstein who have been waiting to see if their Liechtenstein bank has identified them."

The tiny principality, with its population of just 55,000, has 15 banks who will all be sending letters. The largest are LGT Group, owned by the Prince of Liechtenstein, followed by Liechtensteinische Landesbank, Kaiser Ritter Partners and Centrum Bank.

Philip Marcovici, a board member of Kaiser Ritter, said the tax amnesty developed by the HMRC, the Liechtenstein Disclosure Facility, could make Liechtenstein more – not less – attractive as an offshore centre.

He said: "The Liechtenstein Disclosure Facility is the best deal available for voluntary disclosure. Liechtenstein has negotiated a number of long-term advantages for it with the UK, including the UK agreeing to take steps to implement a full tax treaty, and to recognise Liechtenstein structures, such as foundations and partnerships, making them useful for a large number of UK connected families."

Under the facility, account holders will have to pay just 10 years of tax rather than 20.

Clients will be required to pay the tax due on income and gains on their un-assessed tax liabilities, including those arising onshore, as well as interest and in most cases a fixed 10% penalty. In addition, the facility offers immunity from prosecution for tax fraud.

McGrigors pointed out that the facility is not limited to taxpayers with existing accounts or assets in Liechtenstein. Thousands of taxpayers with bank accounts in other jurisdictions may be eligible to use it.

Collins said that the real problem is that HMRC has failed to publicise the facility widely. Whilst taxpayers who have banked in Liechtenstein will be contacted by their banks, taxpayers who bank in, say, Switzerland or Singapore may be unaware of the amnesty. He added: "Unless HMRC makes more of a splash, only a small minority of taxpayers who are eligible to use the LDF are likely to do so."

Collins said that although many account holders will come forward, a number will refuse to disclose, preferring to move their accounts to more secretive jurisdictions like Singapore, Panama or Dubai.

Marcovici cautioned: "For those looking to leave a legacy of problems for the younger generation, and who want to live their own lives in fear of getting caught with undeclared funds, there remain a number of jurisdictions that they can try to run to...but we know that, for many reasons, this is simply not in the best interests of the families involved."

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