13 July 2020

Global Tax Alert

Liechtenstein and Netherlands sign tax treaty

Executive summary

Representatives of the Principality of Liechtenstein (Liechtenstein) and the Netherlands signed a comprehensive double tax treaty (the treaty) on 3 June 2020. The newly signed treaty has been published but is still pending ratification by the parliaments of both countries before it enters into force. The treaty is an important milestone for Liechtenstein as a financial center and the latest addition to its growing network of double tax treaties.

It is important to note that Liechtenstein is not part of the European Union. Accordingly, EU regulations, such as the Anti-Tax Avoidance Directives (ATAD I and II) are generally not applicable in Liechtenstein which may be an interesting consideration for investors with Liechtenstein-Dutch structures.

Detailed discussion

The objective of the treaty between Liechtenstein and the Netherlands was to further strengthen cross-border cooperation and to promote cross-border investments. The wording of the treaty generally follows the model treaty of the Organisation for Economic Co-operation and Development (OECD) and contains the standard provisions to avoid double taxation of income and capital.

In this context it is noteworthy, that the newly signed tax treaty will provide for full relief of withholding taxes on dividend payments to corporate investors (generally including foundations and establishments), provided they hold at least 10% of the capital of the company paying the dividends throughout a 365-day period. For other investors such as individuals, there is no full relief but the standard 15% rate envisaged by the OECD model treaty is included (however, Liechtenstein does not levy withholding taxes). Combined with the 0% withholding tax rate for interest and royalties, the Liechtenstein-Netherlands tax treaty offers a beneficial legal framework for cross-border investments.

As a deviation from the OECD model treaty, a provision regarding the exit taxation of qualifying assets upon relocation of individuals is included (relevant for relocations from the Netherlands to Liechtenstein).

With the conclusion of the negotiation of its 21st double tax treaty, Liechtenstein has further implemented its objective to provide legal certainty and non-discriminatory taxation rules for multinational entities. In this context it should be noted, that the new treaty also provides for a mutual agreement procedure to resolve any difficulties between the two countries. Overall, the new double tax treaty concluded by Liechtenstein and the Netherlands is fully aligned with the OECD/G20 BEPS (Base Erosion and Profit Shifting) project and provides full tax transparency based on the global standard on the automatic exchange of information (AEOI).

Currently, no official date has been published as to when the treaty will enter into force, as the legal framework first needs to be formally adopted by the legislative branch of the government of Liechtenstein (Landtag) and the Dutch Parliament. However, the treaty is expected to come into force in 2021.

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EYG no. 004780-20Gbl

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