Tax relations between Slovakia and Liechtenstein, income and dividend distribution to/from Liechtenstein, taxation of interest, royalties and capital gains

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Tax relations between Slovakia and Liechtenstein

- Slovakia and Liechtenstein => no Double Tax Treaty (**aim**: to avoid double taxation).
- *Convention on Mutual Administrative Assistance in Tax Matters („Convention“)* **effective** as of **1 January 2017.**
- Convention is a multilateral instrument available for all forms of **tax co-operation to tackle tax evasion and avoidance**.
- Project of the OECD
- List of participating jurisdictions: http://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf

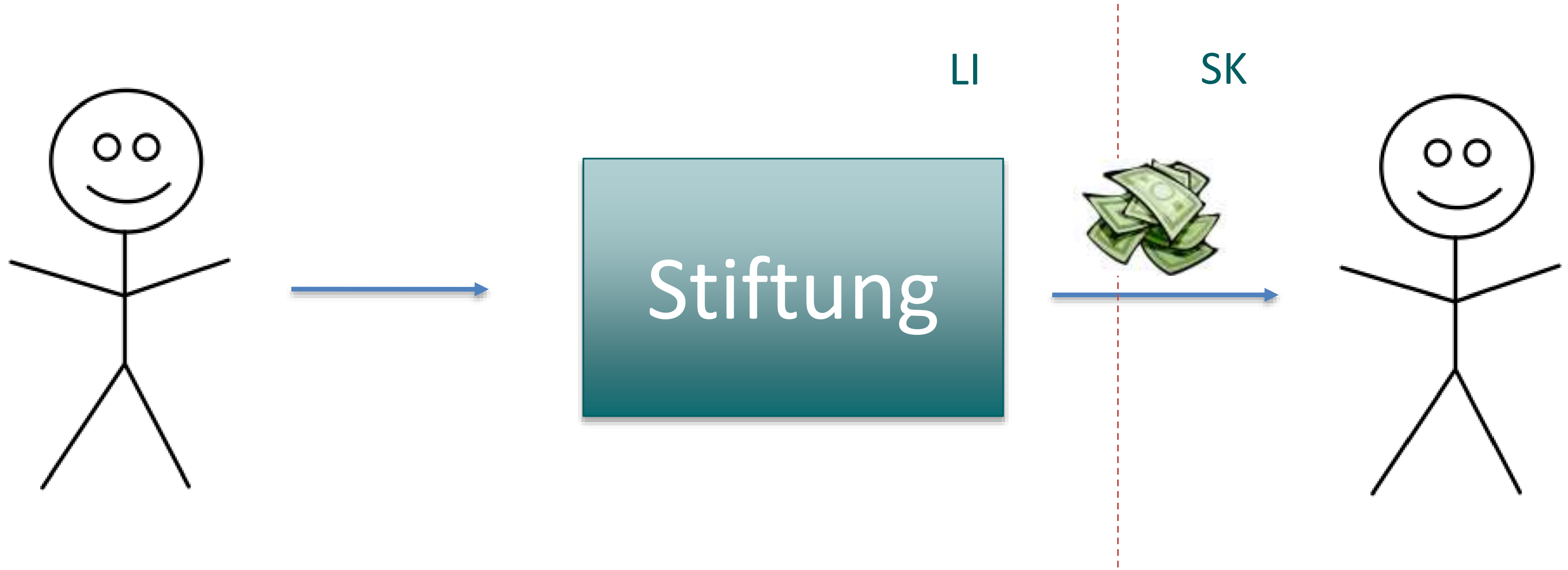
Tax relations between Slovakia and Liechtenstein

- The Convention deposited by Slovakia shall apply to:
  - **Personal Income Tax**
  - **Corporate Income Tax**
  - **VAT**
  - **Excise Duties**
  - **Vehicle Tax**
- The Convention deposited by Liechtenstein shall apply to:
  - **Personal Income Tax**
  - **Corporate Income Tax**
  - **Real Estate Capital Gains Tax**
  - **Wealth Tax**
- ***Consequence*** => countries will exchange information on the above-mentioned taxes covered

Practical examples

SK $\longleftrightarrow$ LI

„Stiftung“ distributions

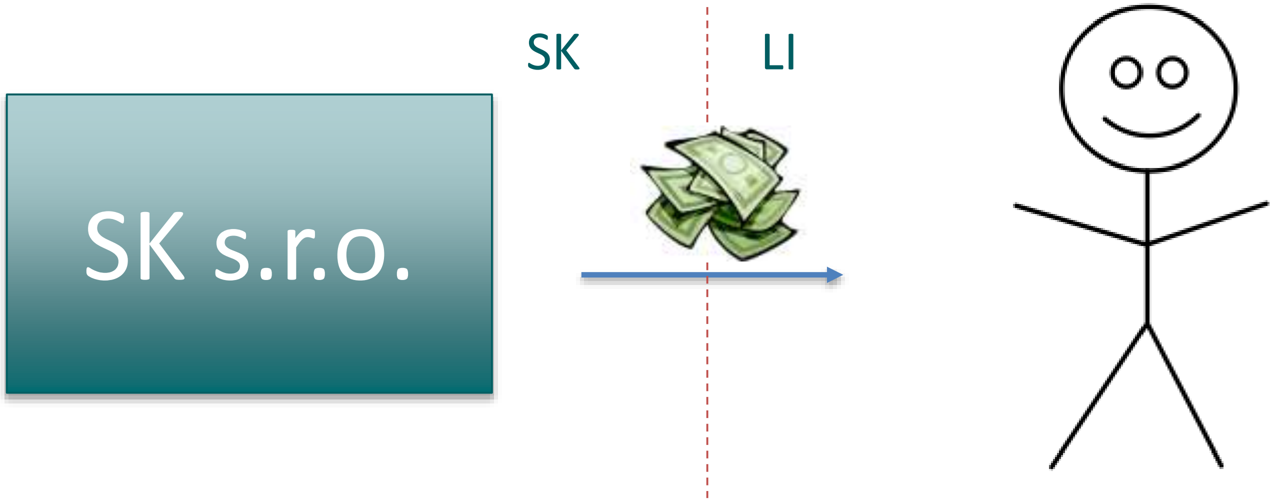


- **Case:** Stiftung beneficiary (natural person) with residence in Slovakia receives distributions from Stiftung (Foundation).
- **Question:** How to tax this distribution?

„Stiftung“ distributions

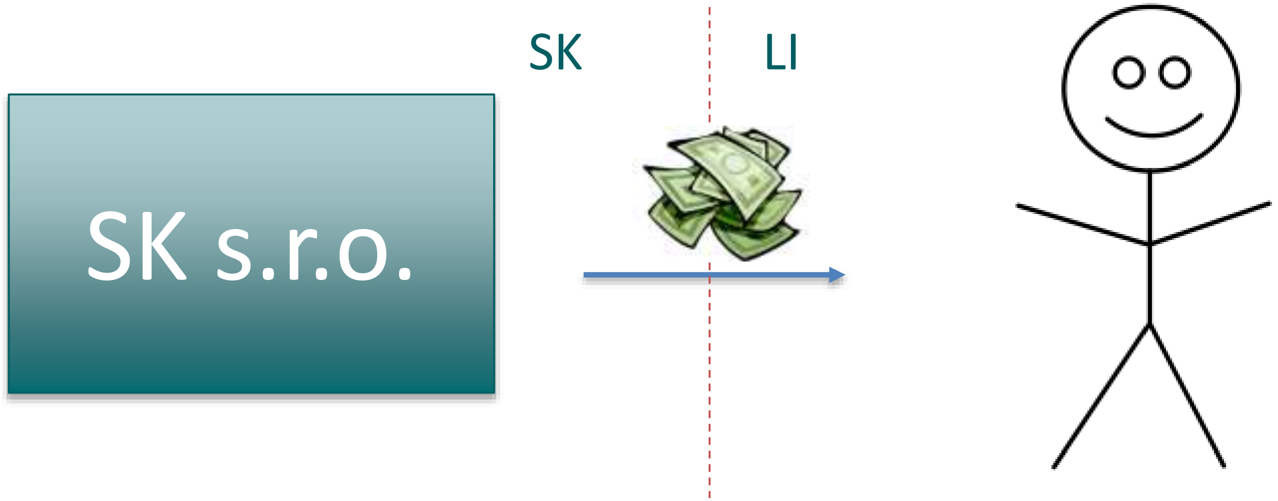
- **Answer:**
  - Distributions to foreign beneficiaries are not subject to any taxation in Liechtenstein.
  - In Slovakia, these distributions will be taxed as „**other income**“ (§8 (1) ITA) at **rate of 19% or 25%** depending on the annual taxable income (threshold is 36 256,38 EUR).
  - Furthermore, these **distributions are subject to health insurance contributions at rate of 14 %.**

Dividend distributions from SK s.r.o. – natural person



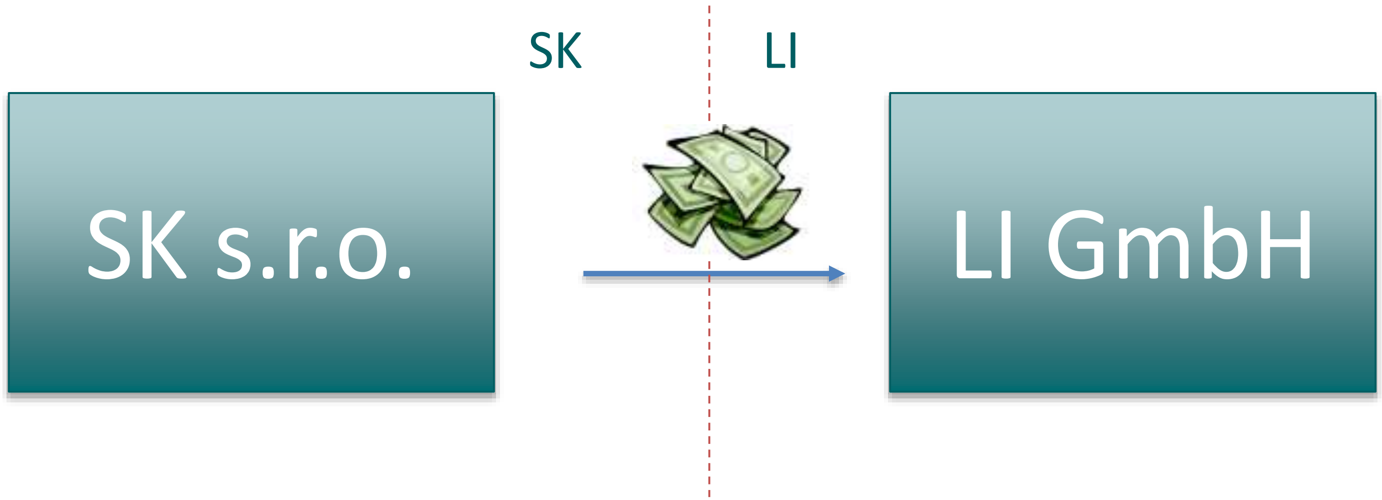
- **Case:** SK s.r.o. distributes dividends in 2019 from the 2017 profits to a Liechtenstein resident.
- **Question:** How to tax this distribution?

Dividend distributions from SK s.r.o. – natural person



- **Answer:**
  - Distributing company withholds the dividend distribution at rate of 7% (§3 and §43 ITA)
  - **Since there is no DTT, risk of double-taxation exists, if** Liechtenstein taxes the income from dividends.

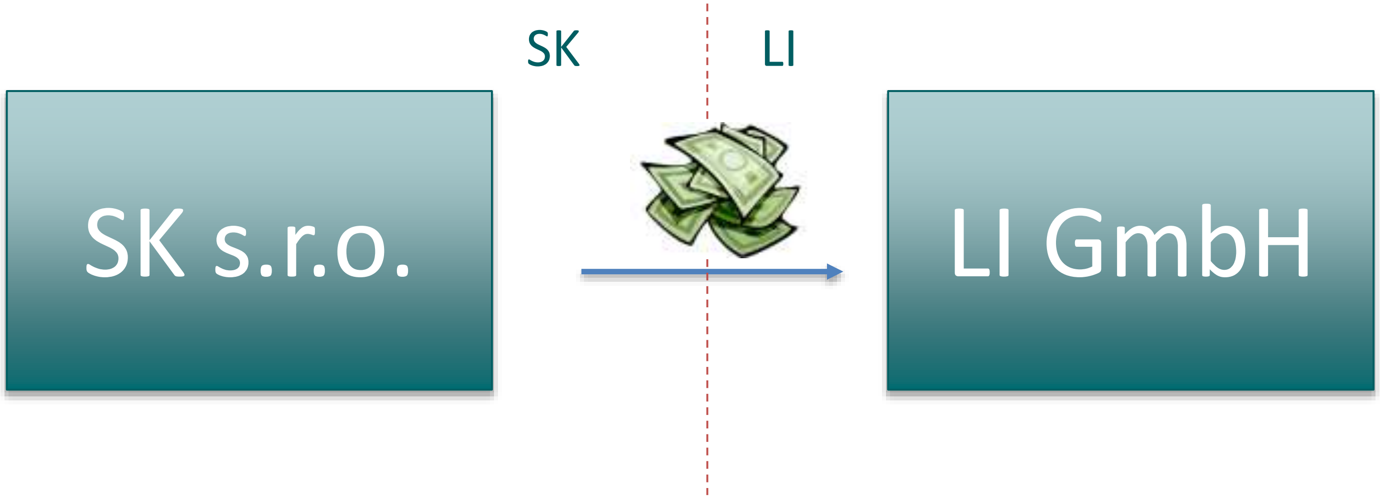
Dividend distributions from SK s.r.o. – legal person



- **Case:** SK s.r.o. distributes dividends in 2019 from the profits derived in 2017 to a Liechtenstein GmbH.

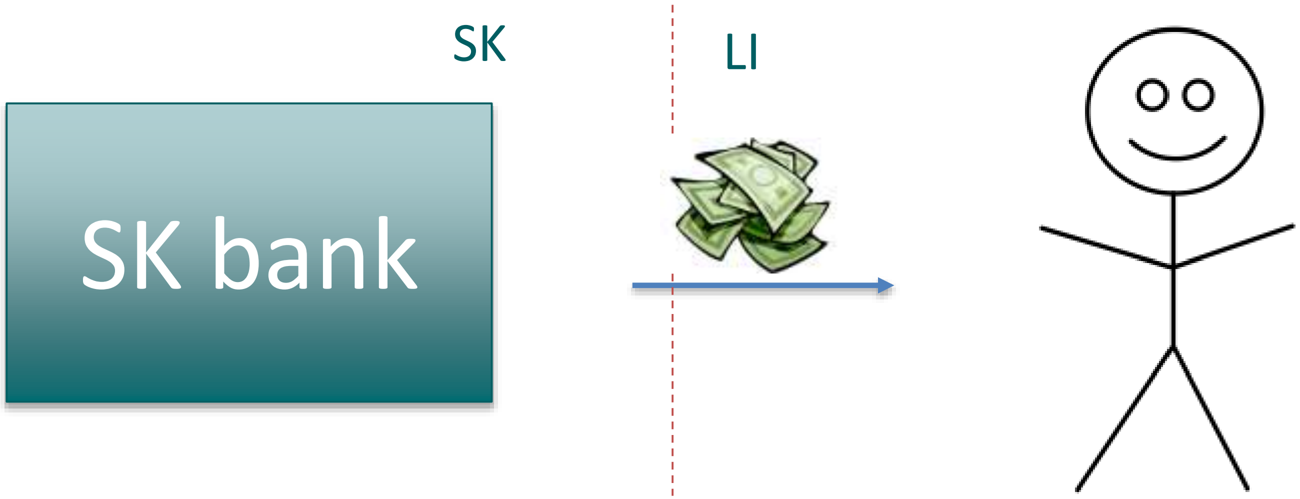
- **Question:** How to tax this distribution?

Dividend distributions from SK s.r.o. – legal person



- **Answer:**
  - Dividends distributed by SK s.r.o. to another legal entity **are not subject to tax at Slovakia (§12 (7)(c) ITA).**
  - Therefore, the dividends **arrive to Liechtenstein tax free and further taxation depends on the Liechtenstein laws.**

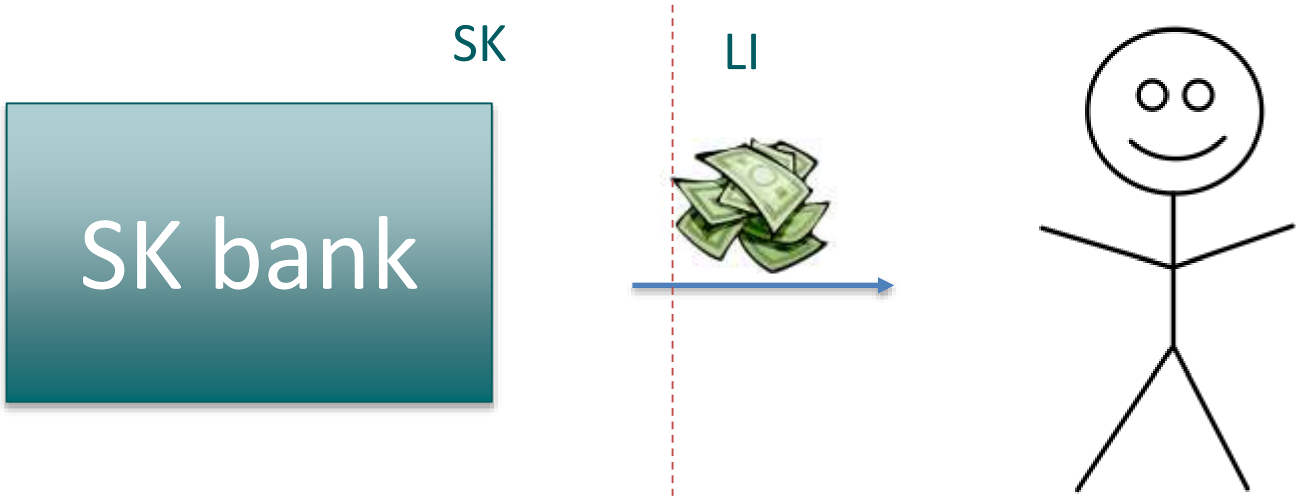
Interest income – source Slovakia



- **Case:** SK bank pays out to the Liechtenstein natural person interest on securities or investment certificates.

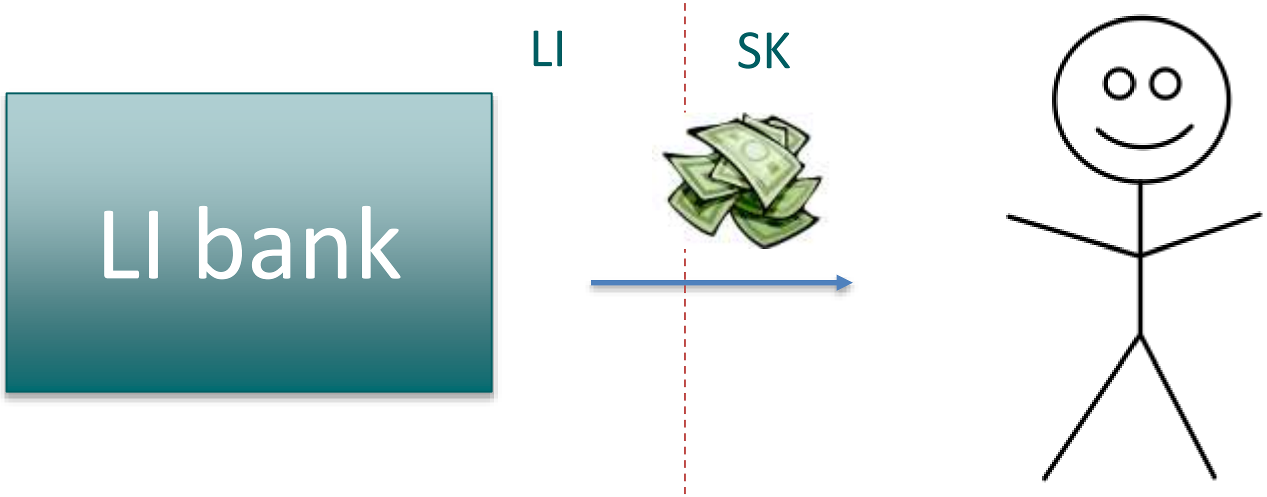
- **Question:** How to tax this payment of interest?

Interest income – source Slovakia



- **Answer:**
  - SK bank **withholds 19%** on interest income from participation certificates, certain debentures, vouchers and investment coupons; and interest from bank deposits and current accounts in general (§7 and §43 ITA).
  - **Since there is no DTT, risk of double-taxation exists, if** Liechtenstein taxes the interest income.

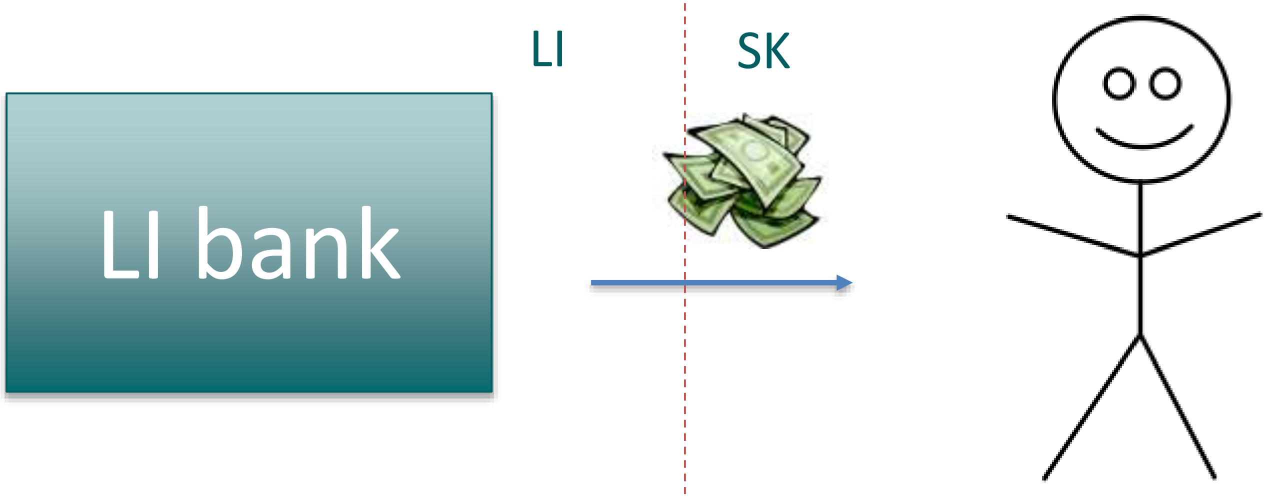
Interest income – source Liechtenstein



- **Case:** LI bank pays out to the Slovak natural person interest on securities or investment certificates.

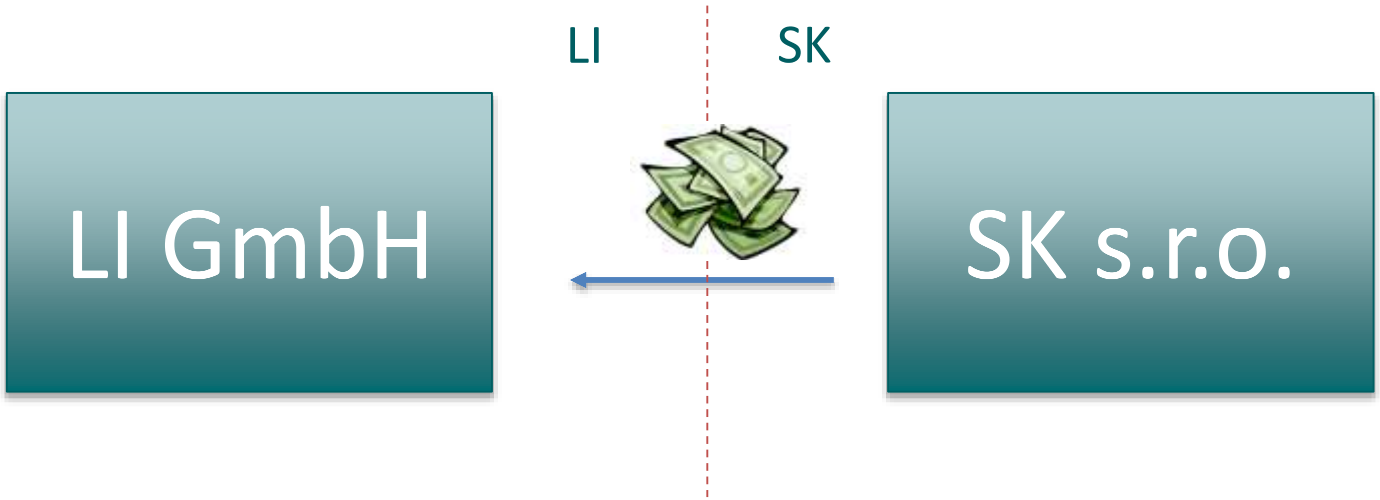
- **Question:** How to tax this payment of interest?

Interest income – source Liechtenstein



- **Answer:**
  - Whether the interest leaves Liechtenstein tax free or not depends on the tax laws of Liechtenstein.
  - In Slovakia the natural person has to declare this **interest income in the PIT return in the special tax base. Tax rate for this type of income is 19% (§7 and §15 ITA).**
  - Since there is **no DTT, risk of double-taxation exists**, if Liechtenstein taxes the interest.

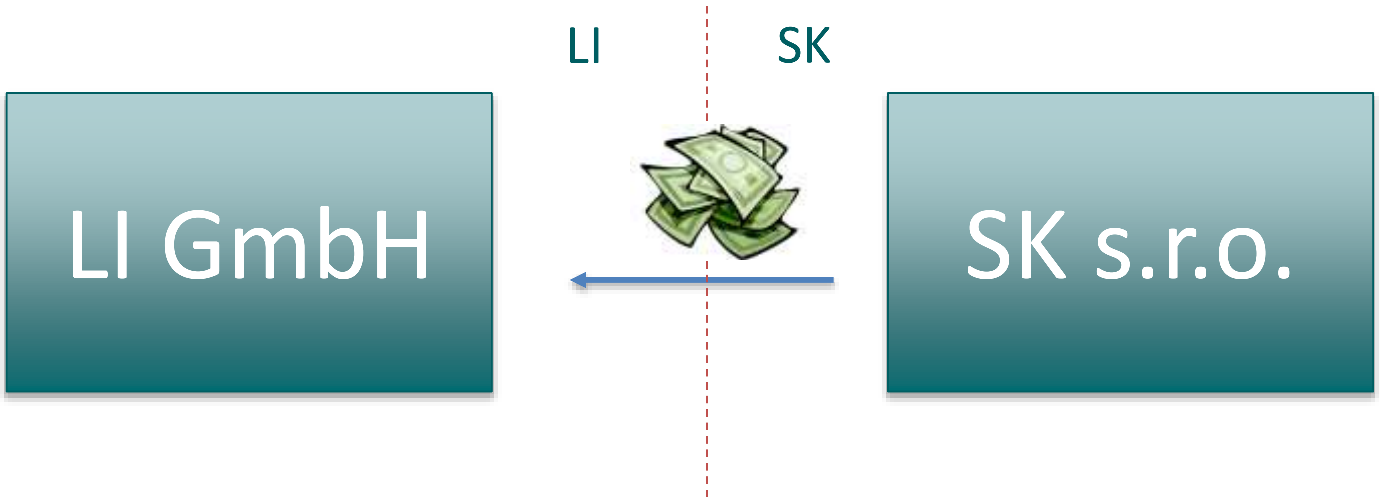
Royalties



- **Case:** LI GmbH is owner of a patent and concluded a License Agreement with SK s.r.o. SK s.r.o. is the licensee and shall pay license fee for using the IP.

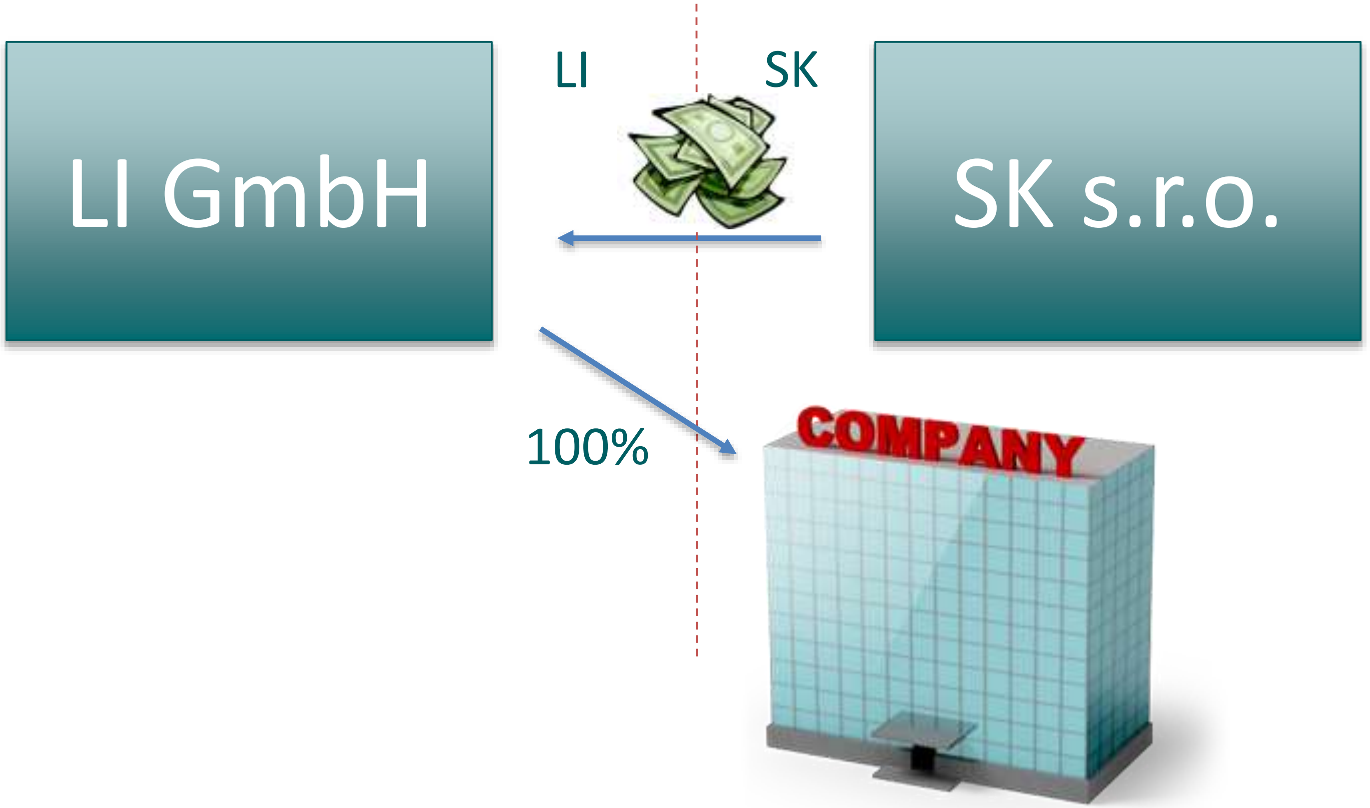
- **Question:** How to tax this license fee?

Royalties



- **Answer:**
  - **License fee** which is paid our to LI GmbH is **according to §16 ITA considered as income from sources in territory of the Slovakia.** Therefore, SK s.r.o. has the **obligation to withhold tax on this license fee at rate of 19%** (§43 ITA).
  - Since there **is no DTT, risk of double-taxation exists, if Liechtenstein taxes the income from License Agreement**.

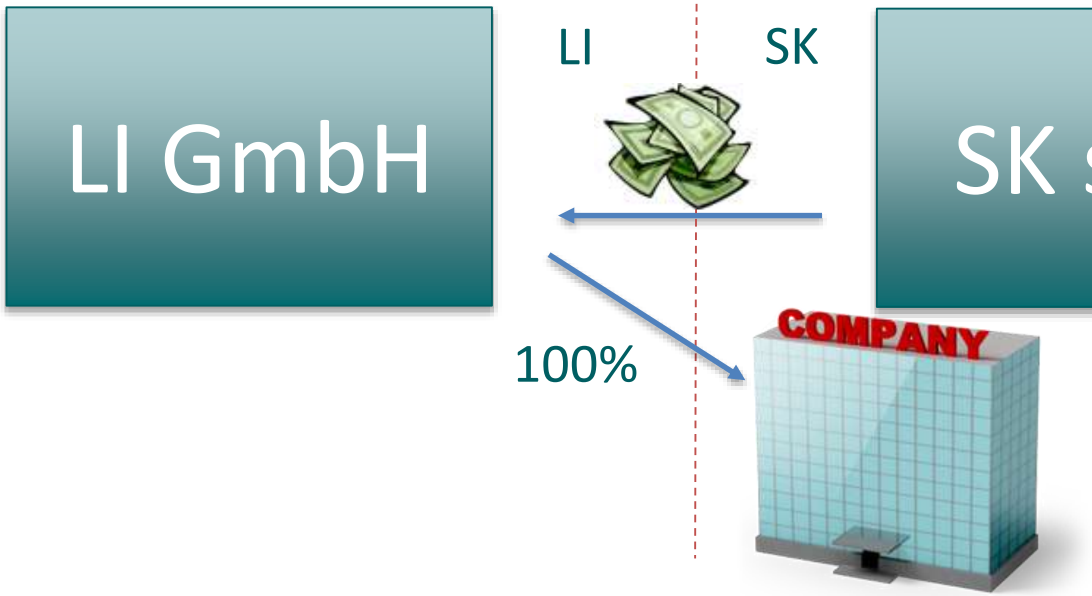
Capital Gains – sale of shares – SK company



- **Case:** LI GmbH is owner of 100% shares on a Slovak resident company. LI GmbH sold these shares to SK s.r.o.

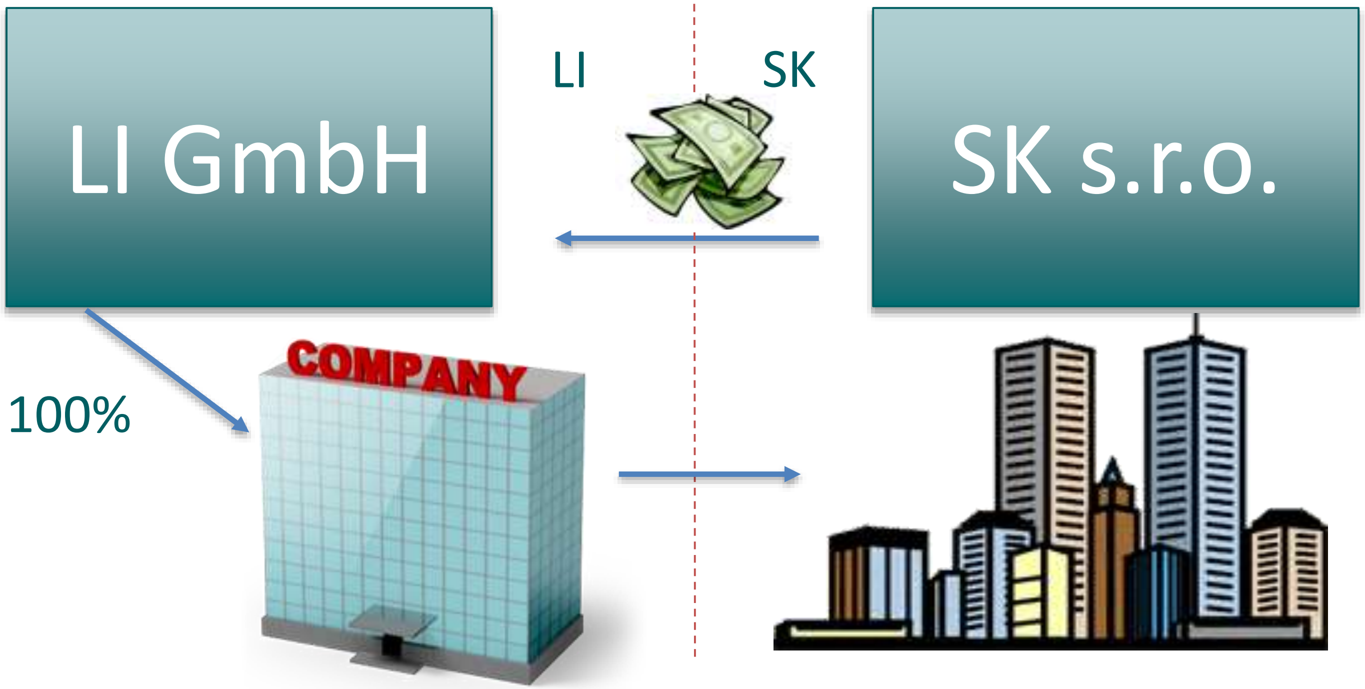
- **Question:** How to tax the income from sale of shares?

Capital Gains – sale of shares – SK company



- **Answer:**
  - **Income from the sale of shares** is considered based on §16 ITA as **income from sources in territory of the Slovakia**. Therefore, **LI GmbH has to tax this income** in Slovakia at rate of 21% by submitting CIT return.
  - LI GmbH has the possibility to **decrease this income by deducting the expenses in the amount of the input value**. However, **deduction is limited by the income from the sale (§19 ITA).**
  - Since there is **no DTT, risk of double-taxation exists**, if Liechtenstein taxes the income from the sale of shares at hands of LI GmbH.

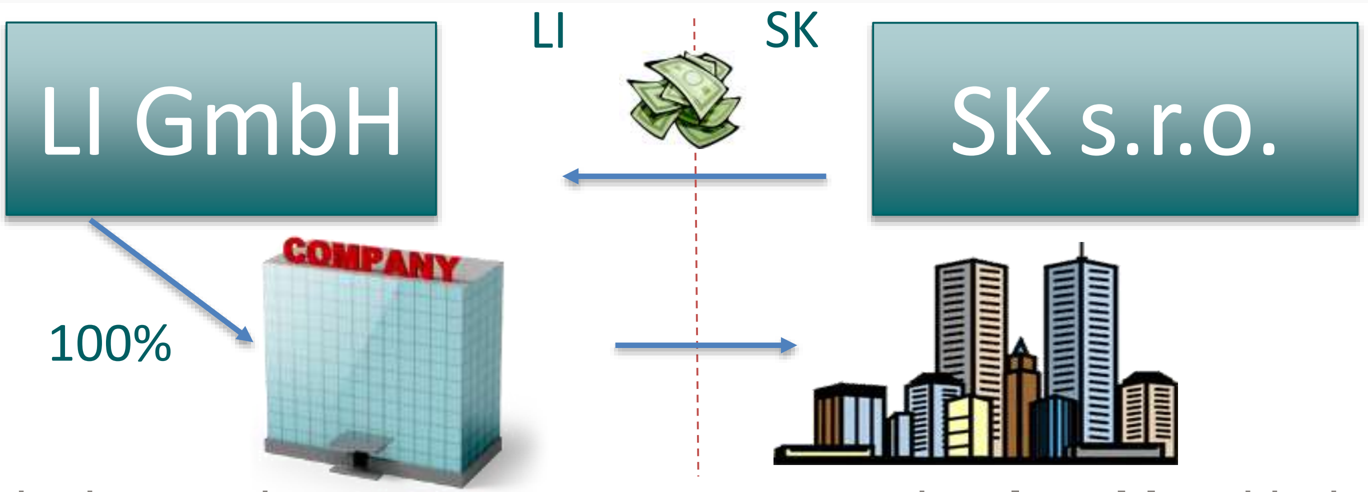
Capital Gains – sale of shares – LI company



- **Case:** LI GmbH is owner of 100% shares on a Liechtenstein resident company that owns property in Slovakia and book value of this property is higher than 50% of the equity. LI GmbH sold shares on this Liechtenstein company to SK s.r.o.

- **Question:** How to tax the income from sale of shares?

Capital Gains – sale of shares – LI company



- **Answer:**
  - Since Liechtenstein company owns **property** in **Slovakia** with the **book value higher than 50% of its equity**, the income from sale of share on this Liechtenstein company is for **LI GmbH income from sources in territory of the Slovakia (§16 ITA**). LI GmbH has to **tax this income in Slovakia at rate of 21% by submitting CIT return.**
  - LI GmbH has the possibility to **decrease this income by deducting the expenses in the amount of the input value**. However, **deduction is limited by the income from the sale (§19 ITA).**
  - Since there is **no DTT, risk of double-taxation exists**, if Liechtenstein taxes the income from the sale of shares at hands of LI GmbH.

Thank you for your attention ☺

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