

Vaduz, August 2008

Chairman's Letter 2/2008

The Road to Tax Compliance

Dear Ladies and Gentlemen

In my Chairman's Letter of May this year I addressed some of the unusually aggressive measures of various tax authorities and recommended that families with undeclared funds review their current situation and structures with professional advisors to ensure that their tax status is fully compliant.

Over the past few months, a new wave of headlines has hit the news about aggressive tax-investigations in Europe, the United States, South America and elsewhere. Not surprisingly, some wealth owners found speculations about their tax affairs described in news stories – severely harming their reputations, and those of the banks, advisors and trustees involved.

These recent developments have somewhat paralyzed the global off-shore market with its estimated US\$ 5.9 trillion in funds, an undefined portion of which is considered to be non-tax-compliant. Many wealth owners and some of their advisors still seem at a loss as to how to deal with this situation and one observes that two main avenues are currently being explored: "how to hide better" or "how to become compliant".

This comes at a time when global banks have started to reassess their risk positions in providing services to clients in countries where tax authorities target not just the taxpayer, but also the bankers and advisors who they suspect of assisting or supporting tax evasion. As a consequence, more and more clients with undeclared funds will find themselves in a new and awkward position, and will find it increasingly difficult to find a reputable bank that will accept them as clients.

Stop-over in Singapore?

Singapore has been building its wealth management industry for some time and currently shows the highest growth rate in this area globally. However, when considering Singapore as an alternative jurisdiction for undeclared funds one should keep in mind that

- (1) Singapore has large industries that are dependent on international trade and
- (2) already has well over 50 tax treaties benefiting cross border business.

While Singapore may currently protect undeclared funds, the reality is that Singapore is and will continue to be a collaborative member of the international community. While many think short term, my own view is that it is clearly only a matter of time before Singapore comes under scrutiny similar to that of other “offshore” jurisdictions. So where does one go from there - to Cambodia or Vietnam? Moreover, to move today’s non-compliant funds to another destination such as Singapore cannot change the track record of undeclared assets but rather creates new evidence of trying “to hide better” – something that might make it more difficult and expensive to finally regularize such funds with the relevant tax authorities. So, should one look for new ways and locations through which to hide undeclared funds or are there more sophisticated and responsible solutions to addressing the historical and global problem of undeclared funds?

Navigating on the right side of change

We live in a complex and rapidly-changing world and have to accept this. The drivers of global change are all interlinked and even just one of them can swiftly trigger substantial transformation in our world – for the better or the worse – with broad-ranging implications for private wealth, companies and entire industries.

I am of the personal opinion that undeclared off-shore funds will become increasingly problematic in a networked, transparent world where many countries do not know how to finance their budgets. Hence, I believe that finding solutions to transform undeclared funds and non-tax-compliant holding structures into truly compliant funds is a substantial need of rapidly increasing priority and urgency. Monitoring the big picture developments, I view the “demise of black money” as a mega-trend in the finance-sector. This is not a judgment on the past – many wealth owners were historically faced with corrupt governments and other challenges that forced them to consider ways to avoid declaring their assets and income to their home countries. However, the world has changed, and wealth owners from an increasing number of countries must either play by the rules of their country or leave it.

In summary, wealth owners are well-advised to constantly assess global macro-trends in this field in order to navigate on the right side of change – for the good of themselves, their children and their private investments.

Liechtenstein is taking a leading role in paving the road to tax-compliance

The Principality of Liechtenstein and its financial centre has the privilege of having been trusted by major families, successful wealth owners and their companies and advisors around the world for generations and Liechtenstein financial institutions and trust companies have been working with the most respected global banks, law-firms and wealth advisors for decades.

The leaders in Liechtenstein are well aware of their responsibility towards their international clients and partners and will not disappoint them.

These leaders have been monitoring the global environment for many years and clearly recognize the above mentioned mega-trends and have carefully evaluated the options which are in the best interest of their clients, partners and of the Liechtenstein financial centre itself.

In this context, the Hereditary Prince Alois of Liechtenstein launched a paradigm shift on the occasion of Liechtenstein's National Day, 15 August 2008, by calling for the Principality's system of mutual legal and administrative assistance in tax matters to be based on a new foundation. He suggested plans "to offer all States comprehensive cooperation if they are willing to find sensible solutions with us for the client relationships we have built up, and if they are interested in fair and constructive cooperation for the future".

The Hereditary Prince Alois also confirmed that "privacy" will remain a fundamental right Liechtenstein will defend for its clients, and Otmar Hasler, the Prime Minister of Liechtenstein, said in an interview with the Financial Times that Liechtenstein will continue to protect the bank-secrecy-law but will not support the misuse of it in tax-matters.

Many people in Liechtenstein and abroad are now curious as to what this will mean for the banking and trust industry in Liechtenstein and most importantly for their international clients. Some international advisors are likely to seek to take advantage of Liechtenstein's statements to encourage wealth owners to buy in to dubious strategies designed to "hide undeclared funds better", something that is usually far from being in the best interests of the families involved.

Liechtenstein, however, is committed to meeting its responsibilities to the wealth owners it serves, and is seeking collaborative approaches designed to help families find the right avenues to compliance: avenues which are designed to protect wealth and to protect the younger generation.

International competence-centre for tax compliance matters

Kaiser Ritter Partner has been focusing on this and other mega-trends affecting wealth owners and their families throughout its history. Over the years, we have refined and built up our global network of external partners to include top law and accounting firms, as well as develop our internal expertise to help wealth owners navigate change.

We are now working with wealth owners reviewing issues including optimizing asset allocation for tax reasons, the application of statutes of limitations, the strategic use of amnesties and, with increasing importance, voluntary disclosure proceedings that can allow for attractive means to become fully compliant. Transferee liability is also an important part of the puzzle, with many countries passing on a parent's unpaid tax liabilities to the younger generation when assets pass by gift or bequest.

Is it in the interests of your children if you are encouraged to “hide the money better” by moving it to Asia or elsewhere, or by being seduced by expensive and risky “black box” solutions? In a world of increasing transparency, it is, to me, only a question of time before the problems of the older generation become the problems of the younger.

Responsibility in wealth means understanding the realities – and these may differ substantially depending on the home country involved, as well as on a number of other factors.

Responsibility in wealth also means understanding the needs of every single client and assisting them in finding the best solution for their situation.

Navigating this complex area requires not only significant home country expertise, which we tap into using our global network, but also the “birds-eye view” that Kaiser Ritter Partner maintains given its work with wealth owners from around the world.

The obsession with tax matters can sometimes be a dangerous distraction to dealing with the real needs of families. Besides addressing these matters of current importance we will continue to watch the big-picture developments to help wealth owners navigate on the right side of change and take the responsibility to help protect and grow private wealth responsibly.

Yours sincerely



Fritz Kaiser
Executive Chairman