

From “Tax Haven” to “Wealth Haven”

The following is an invented story of a client meeting taking place in October, 2010. It is intended to illustrate the attractive business potential of an internationally recognized, tax-compliant financial center.

By Fritz Kaiser

David and Natalie Bernstein from Philadelphia visited Liechtenstein for a few days and took advantage of the beautiful autumn weather to go hiking in the mountains, while their children, David Jr and Anna, stayed with friends in Zurich. David and his wife invited the CEO of “Wealth Partners” of Vaduz for dinner on Thursday night to talk about the Natalie Foundation. David’s advisor at Wealth Partners is Jeremy Ohlberg, but David likes to meet with the CEO personally from time to time for a “big picture discussion”, as he called it.

The Bernsteins have been clients of Wealth Partners since early 2009. At that time, they had to close their accounts at a major global bank in Zurich at short notice when the bank, under pressure from the U.S. authorities, terminated its relationship with hundreds of American clients with funds in Swiss bank accounts. And so David was forced to look for a new bank, which he found to be difficult. The pressure from the U.S. authorities was effective, and there were few Swiss banks that wished to be associated with “undeclared funds from U.S. clients”. The risk of an American complaint of abetting tax evasion was too high. David consulted his lawyers in Zurich and they advised him to contact Wealth Partners in Vaduz, because this firm had developed a tried and tested programme for U.S. clients with the intent of “voluntary disclosure”. Wealth Partners was able to work out a favorable solution with the Internal Revenue Service (IRS) of the United States on behalf of the Bernstein family. As a result, the Bernsteins became fully tax-compliant, and as Natalie put it, were able to sleep soundly once again.

New solutions for clients

This kind of procedure had so far never been proposed by any of their advisors. Wealth Partners had a good relationship with the IRS and practical experience in these issues, and so the matter was settled without any major problems. And in the end, tax payments and expenses were lower than originally feared. After filing their tax return in the U.S., the Vaduz-based firm also arranged for a detailed reassessment of all aspects of personal wealth, tax and estate planning with the Bernsteins. As a result, the Natalie Foundation was established in Vaduz and a special type of life insurance for U.S. clients was obtained in Liechtenstein. This combination proved to be beneficial to the Bernsteins and so persuasive that David transferred another four million dollars from the U.S. to the Liechtenstein foundation. This

allowed him to use the low valuations caused by the financial crisis in 2008 for their estate planning to the benefit of their children. Previously, when they had their undeclared funds in their foreign bank account, as so many others did, the Bernsteins had never thought about any of this.

The assets of the Natalie Foundation are now managed by Wealth Partners as an “Offshore Family Office” of the Bernsteins. The firm files an annual tax return in the U.S. in respect of the assets of the foundation. Since then, the assets have been properly taxed in the United States, while the beneficiaries still enjoy the traditional protection of privacy in Liechtenstein and the political stability of this country located in the heart of Europe. “You never know”, David said tersely once when he pondered the need to diversify the family’s political risk exposure. He also believes that banking secrecy in Liechtenstein serves him well in terms of his reported assets because after all, there is no need for the whole world to know what he owns. The Bernsteins are comfortable with this solution and like to travel frequently to the Principality.

Jeremy Ohlberg, the Bernsteins’ client advisor at Wealth Partners, has done an excellent job and David appreciates him because Ohlberg and his team address the personal needs of his family. His international professional education as an lawyer and banking experience are key factors. David appears to be impressed by Jeremy’s Harvard MBA, and sometimes his comments even reveal a certain kind of competitive spirit between his own Pennsylvania University and Harvard in Boston. In any event, the U.S. Clients Services Department of Wealth Partners in Vaduz seems to do a good job.

“Perfect world” put to the test

The dinner conversation during the Bernsteins’ visit to Liechtenstein is very lively. Natalie, witty and completely relaxed, raves about her mountain hike. It is this kind of occasion when many Liechtenstein bankers realise again and again that their small, intact world is something very special for many people who live in large cities in foreign countries. And yet, this “perfect world” was really put to the test in the year 2008. The tax scandal that started in Germany triggered a massive loss of international image for the financial centre, and the unparalleled global financial crisis, at least in modern times, which quickly spread into a world economic crisis, did not stop at the gates of the Principality. However, if we take a look back Liechtenstein handled this situation quite well. Hereditary Prince Alois, with great courage, initiated a paradigm change to establish a modern, transformed financial centre. The government acted with foresight and skill by negotiating a tax treaty with the United States, and forging a fruitful relationship with the OECD, which enabled the country to enter into a number of bilateral agreements with important European nations within a short time.

Liechtenstein quickly gained new international respect as a result, and above all it opened up entirely new business opportunities.

At that time, the international press acknowledged that Liechtenstein had successfully transformed from “Tax Haven” to “Wealth Haven” and set new standards in the process. The financial centre’s international clientèle was grateful that the Principality’s banks and trust companies found smart solutions for outdated structures, and thus gave credibility to the notion that the well-being of clients is their top priority. The financial services providers of Liechtenstein quickly developed a new professional understanding and this new self-confidence made Liechtenstein an internationally recognised centre of competence for asset planning and wealth management. And so the Principality of Liechtenstein became the benchmark for new, tax-compliant offshore financial centres.

Stable and recognized

David Bernstein carefully studied this metamorphosis of Liechtenstein. By the time he was convinced of the advantages that Liechtenstein offered, he decided to leave his assets there for the long-term. The stability and recognition of the financial centre is important to him, and this is why he feels secure. He is immensely grateful to Wealth Partners for providing him with a professional and effective solution to his difficult personal situation. And now, during this client meeting, he is interested in finding out what else this firm has to offer.

They discuss the ongoing challenges of the world economic situation and also talk about the U.S. economy, which is slowly beginning to recover from the deep recession of the past years. David is quite satisfied with the performance of the Obama government. The American people have found a new awareness because of their new president – and he also seems to be good for business. David likes him, although he has always been a Republican and the government was even tougher and stricter with tax evaders from the very beginning.

No escape to Asia

A business associate from Palo Alto, California had first-hand experience with how it feels to be arrested for a tax offence, David says. This associate is involved in doing business on the Internet and produces components in China. He deposited a few million dollars in a foreign bank account as a reserve, but failed to report the money in the United States. His consultant advised him to secretly transfer the funds to Hong Kong. The U.S. authorities are now particularly displeased with him and his lawyer because of this additional manipulation.

The client advisors of Wealth Partners had pointed out to David at that time that the money laundering laws of Hong Kong – as well as some other financial centres – included so-called “all crimes” provisions and, therefore, a consultant in Hong Kong would actually have to notify the authorities if he had knowledge of unreported U.S. assets. The global financial and

economic crisis also forced the Asian authorities to be more internationally cooperative in matters concerning tax evasion. And so the trip to Asia did not sit well with this friend in Palo Alto and his assets.

Understand fully – advise responsibly

During the client meeting in Vaduz the situation of David's company in the United States also comes up. The Bernsteins own a well-known software development centre in Philadelphia, which brought prestige and financial independence to the family. David talks about problems with his manufacturer in China, who unlawfully copies his products under a parallel structure and disregards the patent rights. They agree that a trustworthy partner is indispensable for doing business in China. The CEO of Wealth Partners recommends a contact from his partner network, and suggests that David should meet him next time he travels to Asia. This person in question will afford David invaluable help in solving this delicate problem.

The Bernsteins do not need their assets in Liechtenstein to cover day-to-day living expenses and therefore they can be invested for the long-term. According to David, the family would like to use part of these assets in the future to make charitable contributions, but they have no clear understanding of how such a commitment could be optimally structured. Since Wealth Partners has practical experience in philanthropy, David will meet with the specialists in Liechtenstein to talk about it.

Finally, David is particularly interested in the topic of "responsible investing" and so the principles of this philosophy and investment strategy are discussed, and quite specifically the investment potentials of water and renewable energy. Natalie is also seriously and deeply involved in this conversation.

The Bernsteins are a good example of the new generation of wealth management services in Liechtenstein. It demonstrates how a financial services firm in Liechtenstein takes responsibility for the assets of a family in a client relationship built on trust, and how it provides comprehensive and long-term support to a client and thereby adds real value.