



# TRANSFERRING YOUR RESIDENCE TO ANDORRA

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Save Taxes + Protect Assets



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# Andorra as a tax haven

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We offer a wide range of services, including the following business services:

- Worldwide establishment of companies, foundations and trusts. Obtaining specific operating licenses such as financial licenses, forex, fintech, gaming, etc.
- Citizenships and residencies in different parts of the world.
- Opening of personal, corporate or business accounts worldwide – even without Automatic Exchange of Information (AEOI)
- Tax optimization, e.g. US LLC completely tax-free, no accounting, US bank account.

# Principality of Andorra as a tax haven

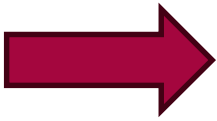
In the past, Andorra has also attracted attention due to financial scandals. For example, in 2015, Banca Privada d'Andorra was accused by the U.S. Treasury Department of money laundering funds related to organized crime.

In the meantime, Andorra is actively trying to improve its image:

In 2017, the Principality abandoned banking secrecy, began exchanging information with the EU and the OECD and concluded several transparency agreements. For example, the Spanish tax authority is now allowed to carry out tax inspections in the principality. As a result of the measures taken, Andorra has managed to come down from the blacklists. And the fact that the IMF admitted the country as a new member in 2020 also contributes to a new, better image.

However, the small principality in the Pyrenees remains a financial paradise due to its low taxes compared to most EU countries.

## Principality of Andorra – Key Facts



Income tax: 5% - 10% from €24,000 - €40,000

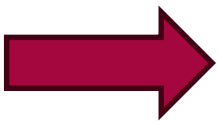
Corporate Tax: 2% - 10%

VAT: 1.0% - 4.5%

Taxes on domestic dividends: 0%

Taxes on gains on assets on the stock exchange: 0% (except commodities)

Taxes on profits of cryptocurrencies: 5% - 10% (See Income Tax)



Stay / Residence:

Esa offers three basic models or options

1. Active residency via company formation – deposit 50.000€
2. Passive residence via assignment of investment of minimum 600,000€
3. Employer of Record (EOR)

The minimum stay in the Principality must be at least 183 days p.a. Will be controlled.



Cost of living and quality of life:

Since the pandemic (Covid-19) and the consequent surge in residences, the cost of living has become more expensive and is about 10% higher than in Barcelona. The rental market for real estate in particular is rather tense.

Nevertheless, the quality of life is very high. Immigration is strictly regulated. The crime rate is one of the lowest in the world. The health care system is at a very high level.

The Principality has 100% fiber optic coverage. Electricity is very cheap, and water is cheap.

There are schools with a local focus, as well as Spanish and French orientation, and there is an international and an English school. The nearest German school is about 2 hours away by car in Barcelona.

Andorra is a skier's paradise and at the same time offers the advantages of the Mediterranean Sea due to its proximity or direct border with the south of France and Spain.

The **Airport** Andorra – La Seu d'Urgel, for example, is served directly from Mallorca.

Alternatively, approximately 2 hours drive away, you can fly from Barcelona or Toulouse.

Andorra will not become an EU member state in the next few decades!

## Principality of Andorra – Residence and Taxes

### This is how the attractive tax system works in Andorra

The Principality of Andorra is still an attractive destination thanks to low taxes. Compared to France (approx. 45%) or Germany (approx. 45%), personal income tax is significantly lower at a maximum of 10%. There is no wealth tax, and the VAT rate is the lowest in Europe. All this has led to trade, tourism and the financial sector becoming the most important factors in the Andorran economy.

Because of these tax advantages, both large fortunes and small businesses, high-earning freelancers and stars from the world of sports and film have set up their headquarters in Andorra.

With a clearly advantageous tax system and a tax structure designed to encourage investment and entrepreneurship, the Principality is among the top countries welcoming foreign investment.

And the Principality continues to work to offer an advantageous tax system and extremely interesting taxes for its residents. Andorra may remain a "tax haven" for some foreigners, but the country continues to seduce foreign investors and attract new residents.

### For whom the move to Andorra is worthwhile (and for whom not)

As mentioned earlier, Andorra is also an interesting choice for smaller companies and freelancers. What paperwork you need to register for residency in Andorra, whether you need to make an investment as a company, what are the tax benefits of moving to Andorra, etc. These and many other questions arise when you want to relocate, and there are different requirements.

Accordingly, the legal order of Andorra provides for different types of residence permit:

#### **a) Active work and residence permit for company founders (shareholders / partners)**

The best option for a company (share) owner to become a resident of Andorra is the work permit for shareholders and associates.

As the managing director of your own company, you will receive the active residency immediately after the company has been founded. The company must have a proper commercial activity (production, service, trade, etc.) and you must hold more than 35% of the shares in this company. You will also need to pay into the Andorran social security system. In addition, you will need to deposit a security deposit of **€50,000** with the tax authority, and finally, you will need to **stay in Andorra** for at least 183 days per year.

#### **b) Passive residence with residence and residence permits without gainful employment in Andorra**

Passive residency is the most requested residency in Andorra. It does not include a work permit and is often applied for by people who have financial security or sufficient passive income such as interest income, pensions, dividends, rental income, etc. However, this does not mean that you cannot pursue gainful employment, as we will see in point b2) in a moment!

So, there are three types of passive residence:

### **b1) Passive Residence for Investors**

For these, you will need to provide proof of the following:

- Assets of € 600,000 invested in the form of an Andorran property or paid into an Andorran bank fund.
- A security deposit of € 50,000, which must be deposited with the Andorran State without interest
- The purchase or rental contract of a property in Andorra
- A medical report prepared on site
- Financial security and income (over 300% of the Andorran minimum wage)
- Private health insurance
- A police clearance certificate
- Staying in Andorra for at least 90 days per year

### **b2) Passive residency for businesspeople and professionals/freelancers with an international outlook**

This is ideal for freelancers, self-employed people and other professionals who offer their services internationally and are planning to start a business in Andorra. The company does not have to be founded immediately but can also take place later. This category includes a wide range of professions, including software development, consulting, international sales, etc.

This type of passive residence permit is initially issued for 2 years and can then be renewed again for 2 years. After that, for 3 years. After the seventh year, you will receive an extension of 10 years.

### **b3) Passive Residency for Renowned Scientists, Athletes and Artists**

This type of passive residence permit is intended capacities in their respective field from the above-mentioned areas. This means that they enjoy a certain reputation on an international level, which can also be proven.

As with b2), this is initially issued for 2 years and can then be renewed again for 2 years. After that, then by three 3 years. After the seventh year, you will receive an extension of 10 years.

### **Special features when moving to Andorra**

**Residency for tax purposes:** An Andorra residence permit allows you to officially live in Andorra, but this does not automatically mean that you are also taxable in Andorra. A person can reside in different countries, but only one tax residence applies at a time.



There are various criteria to determine a person's tax residency. To this end, Andorra applies the same criteria as most OECD member countries.

The three most important criteria are:

1. Andorra is your permanent residence. This requires a stay in Andorra of more than 183 days per year.
2. The centre of your economic interests is in Andorra.
3. Andorra is the centre of your life interests, i.e. Your family nucleus (that is, your partner and your minor children) lives in Andorra.

#### **Special requirements for active residency:**

- You must stay in Andorra continuously for more than 183 days a year. However, this period may be interrupted by holiday or business trips.
- You must contribute to the Andorran social security system. This is currently around € 502.00 per month and offers you access not only to the Andorran, but also to the French and Spanish health care system
- Incorporation of an Andorran company or acquisition of a stake of more than 35%
- Deposit a security deposit of € 50,000.00 with the Andorra Financial Authority (AFA).
- You must hold a position in the administration of the company

#### **Tax rates in Andorra at a glance**

##### **Income tax:**

Income in Andorra is tax-free up to an amount of 24,000 euros. The portion of income from 24,001 to 40,000 euros is taxed at 5%. Anything above that is taxed at 10%, which is the maximum tax rate.

DTAs currently exist for only 16 countries, including Spain. To date, there is no double taxation agreement with either Germany or Austria.

**Wealth tax:**

There is no such thing in the Principality of Andorra!

**Inheritance tax:**

This does not exist in Andorra either!

In connection with foreigners in Andorra, the inheritance law of the country of which the deceased was a citizen applies. Therefore, it is advisable to draw up a will with an Andorran notary regarding the local property.

**Corporation tax:**

Corporate income tax ranges from 2% to 10% of the company's profits, depending on the company's activity. This makes Andorra an ideal location not only for large corporations, but also for medium-sized companies and freelancers.

From a tax point of view, setting up a company in or relocating its registered office to Andorra is definitely worth considering.

Taxes on banking and financial services:

Banking and financial services are subject to an increased tax rate of 9.5%.

**Capital gains tax:**

For companies and individuals in Andorra, capital gains are calculated like any other income from a tax point of view.

(a) Capital gains tax on financial capital gains

The nominal tax rate here is 10%.

b) Capital gains from the sale of real estate

are taxed based on the period of ownership prior to the transfer of the property. If the property has been owned by the same person for more than 10 years, there is no capital gain. Otherwise, the capital gains tax is

15% if the property was sold within 1 year;

13% if sold in less than 2 years;

10% if sold in less than 3 years;

After that, it decreases by another percent every year.

c) Capital gains tax on shares

If you own less than 35% of a company, or if you have held shares in a company as a shareholder for more than 10 years, you do not have to pay capital gains tax on shares in Andorra.

Taxes on bank interest:

Interest on bank deposits is tax-free up to €3,000 per year.

Taxes on real estate:

The tax on the transfer of real estate was set at 4% by the law of 29.12.2000 (3% for the municipality, 1% for the state). The real estate transfer tax (ITP) and notary fees (1%) are paid by the buyer. The brokerage fee (5%) is paid by the seller.

**VAT:**

Products and services from the health and education sectors are tax-free.

Food and non-alcoholic beverages are subject to a reduced tax rate of 1%.

The tax rate for arts and culture is 2.5%.

For most goods and services, the inhabitants of the Principality enjoy a VAT rate - general indirect tax (IGI) - of 4.5%. This also applies to the import of goods (= total value of the goods including costs for transport, packaging and insurance) to Andorra and must be paid here at the customs office. That's the lowest rate in all of Europe!

### **Avoiding the Boris Becker trap of a mock move**

The definition of the centre of life and its relocation are described in detail on this page.

Your move to Andorra must definitely be a real move. You must completely relocate your main residence and have sufficient presence on site.

If you continue to stay in Germany, Austria or Switzerland on an ongoing basis, the centre of your life will not really be relocated and you will be like Boris Becker 25 years ago, who spent much more time in Germany than in Monte Carlo.

Only a real move abroad, possibly with the whole family, is an option for you.

It is also important to note that persons who were subject to unlimited tax liability in Germany and have moved abroad regularly receive a questionnaire from the tax office about moving abroad **about 3 to 12 months after deregistering their residence in Germany**. This includes 16 detailed questions in which you are asked to provide comprehensive proof of the circumstances of your departure from Germany and your new residence abroad. Sure, you can just ignore the writing. However, we do not recommend it.

Because: **In the case of tax debts, there is a risk of passport revocation** - at least if you do not communicate with the authorities. And the German state can confiscate your German passport even if you only have tax debts constructed. The only thing that helps is to be able to **buy a second citizenship** (e.g. "Citizenship by Investment").



## **What makes Andorra attractive as a country of residence**

Andorra has a lot to offer. The quality of life is high – the crime rate is low. Both the education system and the CASS (Caixa Andorra de Seguretat Social) health system are good and the contributions for them are very affordable. In addition, there are the hefty tax advantages.

The cultural, culinary, geographical and economic assets that Andorra has to offer make it a unique, even admirable country. The age of digital nomadism can - and probably will - make the small principality in the Pyrenees, also with its jurisdiction and lifestyle, the preferred choice for other Europeans when considering a change of country of residence.

## **Tax aspects of moving away**

We have explained the tax consequences of moving abroad in detail on this page.

An important aspect is that moving out of Germany does not exempt you from paying taxes if you continue to receive income from Germany. A similar rule must be observed for Austria.

Whether or not you, as a German taxpayer, will continue to be subject to limited tax liability in Germany must be checked by your tax advisor in each individual case. In this case, a consultation is unavoidable and should take place in good time before moving away.

## **It should be noted that the Principality of Andorra is considered a low-tax country.**

This may mean that you, as a German taxpayer, not only remain subject to limited tax liability in Germany, but also fall under the extended limited tax liability. In any case, please consult your tax advisor in Germany (the same applies to Austria. Switzerland does not have a similar regulation).

Exit taxation is not deferred when moving to a non-EU country – if you have a company in Germany, the fictitious capital gain is immediately determined, which you then have to pay tax on.

It may therefore make sense to first move to an EU country and from there to move on to the Bahamas.

## **Correct preparation**

In order to prepare your move to Andorra correctly, some questions should be clarified in advance, which we would like to briefly address in the following section. There are a few aspects of your tax and wealth planning that should be clarified before taking this important step.



### **What is the best time to move to Andorra?**

There is no perfect time to move. From a tax point of view, the move within a current tax year, which is valid from 1 January to 31 December, is independent of time.

### **Do I or another family member need a visa for Andorra and on what basis do I apply for one?**

Andorra is not a member state of the EU and is not part of the customs territory. However, there is a customs union between the Principality and the EU. EU citizens do not need a visa to enter Andorra. The country has a transit agreement with Spain and France, so European citizens do not need a special permit. When entering and leaving the country, they only need to have their passport or identity card with them.

Therefore, as a German or Austrian, you do not need a visa for yourself and your family and can stay in the country for up to 90 days without registration. A stay of more than three months requires a residence permit.

### **What will happen to my existing business?**

If you have an existing company, there are consequences for moving abroad.

In principle, a corporation can simply continue to operate, possibly with a new managing director. If you have been self-employed so far, it is not possible to continue the business without further ado. Talk to your tax advisor and discuss the best solution. If you are thinking about selling your business, it is better to complete it before you move.

## **Do I need to start a new business abroad?**

In order to obtain a passive residence permit, you do not necessarily have to set up a new business (see points IV and V). However, it can often make sense to benefit from the attractive tax breaks in Andorra. We will clarify which possibilities and options are possible in a personal consultation.

## **What will happen to my current apartment at home?**

In order to move the centre of your life completely to Andorra, the abandonment of your apartment is absolutely necessary. In order for your tax liability to be lifted in Germany, it is impossible to avoid giving up your home. However, this does not mean that you have to sell your own real estate – you can rent it out if necessary. But you have to deregister your residence in Germany in any case.

## **Automatic Exchange of Information (AEOI) in accordance with OECD CRS**

If you live in Andorra and are a taxpayer there, you do not need to take any action regarding the new automatic exchange of information under the OECD CRS . They are officially entitled to hold accounts abroad and receive capital gains tax-free.

*Your home tax office is known to your bank as Andorra and even if there is an exchange of information, you have nothing to fear from the Andorran authorities because you are not evading taxes.*

However, it can be problematic if you distribute capital gains to Andorra and do not declare the income on your tax return. If this were to come to light as a result of the exchange of information, you could be at risk of inconvenience.

## **How HFSTH & COLL. can help you with your move to Andorra**

HFSTH & COLL. has already assisted many clients in relocating abroad. With offices and partners in the UK, Malta, Dublin, USA, Hong Kong and Spain, we are well equipped to guide you through your move to Andorra, UK, Malta, Ireland, the USA and the Bahamas .

The services we provide are always individually tailored to the client. They usually include one or more of the following tasks with which the client entrusts us:

- Advice on the tax consequences of moving abroad for the entrepreneur: analysis, forecasts, assessments.
- Clarify location issues abroad for your company on the basis of various factors such as market access, available workers, public subsidies in cooperation with local experts.
- Recommendation of local real estate agents who have experience with international clients and can help in the search for properties to buy or rent.
- Recommendation of specialist lawyers in the field of immigration law to obtain a visa.
- Advice and referral to local tax advisors who will take care of opening bank accounts for the company, and you are personally.
- Ongoing tax and administrative support for your company,
- Tax-efficient structuring and restructuring of assets via foreign companies, holding companies and trusts.

In principle, our services are billed according to expenditure, but fixed prices apply to some services (e.g. the establishment of a company).

## **This is how HFSTH & COLL. Supporting you in your project**

Together with our partners, we offer comprehensive tax and legal support for your relocation to a tax-advantaged foreign country.

We follow a well-rehearsed process. Depending on the country, we involve our local partner law firm on site, if necessary, but even then, we remain responsible for the overall coordination.

The result is impressive: We have helped over 100 entrepreneurs and businesspeople to significantly reduce their tax burden.

Careful planning, thorough advice and comprehensive support are a matter of course for us. The highest priority is to ensure that the tax law is properly structured within the framework of international tax legislation.

All details and information have been prepared with great care. We assume no liability for their accuracy and completeness. This offer may only be passed on with our written permission.