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# Confidential

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## Andorra: A gorgeous back door to Europe



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Looking for a safe banking or residency option in Europe? Tax haven Andorra might be your answer.

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Recently I put boots on the ground in Andorra. Located some two hours by car from Barcelona, this tiny 180 square mile mountainous principality is a beautiful playground in the Pyrenees, sandwiched between France and Spain.

But it's not just an attractive holiday spot. It also happens to offer superb banking solutions, tax breaks (for some), and a straightforward, easy path to residency.

If you're not into beautiful scenery, Old World architecture and sunshine, you'll hate the place. Think Colorado or Switzerland, with great hiking, great skiing, and clear blue skies.

It's safe, it's clean, and, like Switzerland, offers a high standard of living. But the cost is a fraction of what you'd pay in similar Francophone tax havens, such as Geneva or Monaco.

Visiting and living in a place, of course, are two very different animals. But with proximity to some of Europe's great cities, the availability of high quality products and services, and a modicum of English proficiency – Catalan is the official language, although every Andorran speaks French and Spanish as well – the lifestyle is pretty stellar.

I went to Andorra for three reasons:

- 1) To analyze the banking system – (superb);
- 2) To poke my nose around the real estate scene – (rent, don't buy); and,
- 3) To explore the residency process – (easy to navigate).

I came away impressed, and armed with a few nuggets to share with you that you won't find elsewhere.

## Back door to Europe

If you're looking for a backdoor to European residency, Andorra offers an intriguing option. And it's less expensive than some of the other investment residency programs out there.



One fact you need to get clear on: **Andorra is not part of the EU and, technically speaking, not part of the Schengen area.** I'll give the implications of that in a moment, but first, a refresher.

The EU is a supranational political union. The Schengen area is a borderless area that lacks checkpoints; that means you can drive from member country to member country, such as from France to Germany, the same way you'd drive from New York to New Jersey, without needing to pass through border control or show documents.

Certain countries are members of the EU but not the Schengen territory. These include the UK, Bulgaria, and Romania. You'll need to go through border control to enter those countries, as you'll note, for example, if you ever take the Chunnel from France to England.

Then there's Switzerland, which is not part of the EU but is part of the Schengen area: you can fly into Switzerland, and then drive into Germany or Italy unencumbered by border control checkpoints.

Now, Andorra, again, is not part of the EU, so you do not gain EU residency by achieving Andorran residency. And it's also not part of the Schengen area... technically speaking. But because of an accident of geography and infrastructure, Andorran residents gain de facto access to the Schengen area.

That's because Andorra is surrounded by Schengen members Spain and France and there is neither an airport nor a train station in Andorra. This means that the only way to get to Andorra is to drive there from Spain or France.

So, for example, if you're Russian and you fly into Spain with your Andorran residency card, they'll have to let you in, and they won't be stamping your passport because you're not a tourist... you're an Andorran resident.

So, technically, after flying into Spain, if you like Barcelona better, then you can stay in Barcelona, as they're not going to track your whereabouts after you leave customs. You can go stay in Andorra, of course, but if you'd prefer to drive off to Berlin and join the startup frenzy, your Andorran residency can be a backdoor to Europe.

## Still (sort of) a tax haven

Another attractive aspect about Andorran residency is its tax system; for years, its lack of personal income tax attracted wealthy folks, who now make up half of the country's 85,000 residents.

Although the principality announced last year that it would collect its first income tax in 2016, the rates will be low: a resident living there more than 183 days per year and making €100,000 annually would pay about €6,800 in taxes.

But just as with Schengen access, there's the letter of the law, and then there's the spirit of the law. Again, you'd need to live there for at least 183 days in a calendar year to be folded into the tax system. That's something difficult to prove, given the borderless situation.

Let's say you live there full-time. You'd pay no tax on the first €24,000 you earn there. At €40,000, you'd pay 5 percent. After that, it's a flat 10 percent tax, still way lower than most countries in Western Europe and the US.

Two more benefits: 1. Retirees are exempt from taxation. 2. There is no capital gains tax on property held for more than 12 years. Not bad when you look at neighboring Spain (which, at 52%, has one of the highest top marginal tax rates in Europe) and France (lower than Spain at 45%, but still very anti-l'argent).

## Banking in Andorra

Regardless of whether you choose to pursue Andorran residency, it might behoove you to set up a banking flag in Andorra.

Banks in Andorra are absurdly well capitalized and incredibly liquid. It's a very safe place to bank; this is not Greece. The primary currency is the euro, but the banks can hold most currencies, within reason.

Because Andorra has such a long history as a tax haven, the banks there have taken on more of a wealth management role than a retail or transactional banking role. If you're looking to stash money there, it's best not to think of the account as the kind you'd use to pay the electric bill. These accounts should be thought of more as for savings, or for investment products and services.

I spoke to one of the directors of **ANDBANK**, an excellent private bank, and was pleased with both their balance sheet and the way they do business. ANDBANK is willing to allow customers from overseas, including from the US. (They are FATCA compliant, and you'll need to fill out a W-9. Basically, they're fine working with you, but if asked will report on your account.)

There is no minimum investment, although you'd probably want to put in \$25,000 to \$50,000 for it to make sense, given the cost and time involved in going there. They do have an annual fee – about 135 euros per year – which I think of as a reasonable “storage fee” to keep your money at a bank that's extremely well capitalized.

That said, even the standard fee is negotiable. In fact, almost *everything* at this bank is negotiable. They really do try to accommodate their customers' needs.

To reach out to ANDBANK, get in touch with María Estefanía Suárez Pérez at [maria.suarez@andbank.com](mailto:maria.suarez@andbank.com).

**You do need to go to Andorra in person to open the account.** (Note: this is not a punishment. You *get* to go to Andorra.) Under certain circumstances, they will allow you to go to another branch – they have locations in Mexico, Miami, Panama, Brazil, Monaco, and elsewhere – but it's best to go to Andorra in person.



I also interviewed bankers at **Banca Privada d'Andorra**. They strive to appeal to the higher financial echelons, claiming to give clients “extra, extra, extra attention,” and they endeavor to create a sense of refined culture and civility. (Their web site invites you to get to know ‘7 new poets,’ and highlights Andorran works of art.)

Their annual fees are much higher than ANDBANK's, at around €400, so this bank probably only make sense if you want to stash away a few hundred thousand euros or more and are looking for a good deal of personal attention.

To contact Banca Privada d'Andorra, get in touch with Debbie van der Wekken at [d.wekken@bpa.ad](mailto:d.wekken@bpa.ad).



## Gaining residency in Andorra

If you're looking to gain Andorran residency, there are multiple ways to make it happen. Again, I can't recommend Jane Whittaker highly enough; she really knows her stuff and can act as a great guide here.

When considering Andorra, first decide if you want to work there or not. Jane Whittaker will point out that there's a big distinction between working **inside** Andorra – i.e., you own a business or have a job at a local bar – and **from** Andorra – i.e., you own an Internet company whose clients are elsewhere.

“Active residents” can work inside Andorra. “Passive residents” gain all the privileges of residency *except* that of working inside Andorra.

Most people choose to be passive residents. (If you have the money to buy into Andorra, you likely don't need to be working inside the country.) In that vein, you gain such residency like this:

- 1) Invest €400,000 (€350,000 + a €50,000 bond—plus €10,000 each for dependents)

Jane Whittaker calls this the “tried and tested path” to residency. You can invest that €350,000 in real estate—so long as the €350,000 is not a mortgage. It can be land, but then you'll need a rental contract, as you need to show residency. You can also invest it in shares or funds issued by Andorran registered entities.

Jane Whittaker can help you set up an investment with a leading Andorran bank (one of the two I just mentioned), which is split 50/50 between a fixed deposit and an investment fund. The fixed deposit portion earns about 2% interest—not great, but hey, this isn't Greece. The other portion, managed by the bank, can be withdrawn *without penalty* at early redemption. So, this might be a good solution if you're looking to park your money until you find the right property or other investment.

With this category, you'll need to spend 90 days per year in Andorra to keep your residency.

- 2) Create an Andorran company. You still pay the €50,000 bond, but you get out of the hefty €350,000 surplus investment. You will, however, be liable for Andorran tax, but the **corporate tax rate in Andorra is 10%**. To put that in perspective, I pay 17% in Singapore. Hong Kong is about the same rate.

The trick with this one is that **at least 85% of your business must be done outside of Andorra** (otherwise you're bumped into the active residency category, which carries further tax implications).

So, if you're trading stocks or have an online business, this might be a decent solution for you: let's say you make €100,000. You'll pay €10,000 in taxes... and that's it. You've paid at the corporate level, and if you can keep the salary that you pay yourself below €24,000, then you shouldn't have to pay any personal income tax, even when they start collecting that in a couple of years. That gives you €66,000 to invest back in your business, tax-free. (As always, confirm with counsel, as this is not official legal advice.)

Jane Whittaker is our outstanding contact in Andorra. A British expat, she's extremely well connected, discreet, and savvy. She'll help you find the best real estate, banking and immigration avenues. As always, I take no fees or kickbacks when you use my contacts; you pay me to find you the best people to help you craft solutions. In Andorra, Jane is that person.

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To set up a business in Andorra, you can either incorporate there – again, the easiest way to do that is to contact Jane Whittaker – or create a new Andorran company that becomes your existing business's parent company.

- 3) If you're Gerard Depardieu, keep reading this. Otherwise, this option might not be for you. Basically, if you can prove that you are famous in art, culture, science or sports, you might be able to gain residency by only paying the €50,000 bond.

Why? Andorra competes with Monaco, which still has no income tax, and wants to woo that level of celebrity to keep a desirable profile. (Personally, I'd choose Andorra over Monaco: although real estate is not cheap in Andorra, you're talking about €1,000-€7,000 per square meter versus *38,000 per square meter* in Monaco.)

- 4) Skate in without paying the bond. Here, you spend most of your time in Andorra and own more than 10% of an Andorran company—a real one, as they're on the hunt for shelf companies. You don't need to make the extra investment, nor, again, the bond, but you're now subject to both personal and corporate taxes and must contribute to social security. Not the best option for most people.

For all of these categories, as with most residency programs, you'll need the usual documents: birth certificates for you and your dependents, a police report from your home country, proof of private medical insurance that's valid in Andorra, proof of adequate income (a letter from your bank), marriage certificate, etc.

Most documents need to be apostilled, and you've got about 3 months from the time the police report is issued to present it to Andorran immigration, or you'll need a new, updated one.

After approval, the initial residency status is given for two years first, and is then renewable for another two years, after which it's extended for three years, and then finally for ten years.

Step one is to contact Jane at [residency@livinginandorra.com](mailto:residency@livinginandorra.com). She can help you take it from there.

Note that Andorran residency is unlikely to ever lead to Andorran citizenship.

Unless you did all your schooling in Andorra, and live there a further 10 years on a permanent and settled basis, you need to live there for at least 20 years on a permanent and settled basis to qualify for citizenship.

And, as Andorra strictly forbids dual nationality, I would not recommend pursuing Andorran citizenship anyway. There are dozens of better options out there.

## Real Estate in Andorra

Three words: rent, don't own.

If you look at rental yields as a percentage of the property price, you'll see that they only average around 2% in Andorra. With the fees and hassles you'll encounter, it's not worth it.

When the yields are that low, it's a better deal to rent than to buy. I'd rather rent for €6,000 per year and put the €200,000 I would have spent on a house into an investment product.





Of course, if you've decided to go for the first residency category and want to invest your €350,000 in property, Jane can help point you in the right direction. Andorra's housing market doesn't offer the same super-prime ritziness as Monaco or London do, but you can find some very nice condos and tidy homes in the Soldeu, La Massana or Ordino ski resorts. I've seen some listed for around €175,000 for 90 square meters, which isn't terrible.

Rental prices are reasonable in Andorra. I saw, for example, a couple of €500/month one-bedrooms with decent amenities and nice views in those ski areas.

Before you jump in, there are two things to note about rentals:

- 1) Rental contracts last for five years. If you are the landlord, you need to know that it is very difficult to evict a tenant, and you can't sell the property out from under the tenant.
- 2) If you are the renter, you will have to have funds available to pay the equivalent of four months' rent up front. It breaks down to one month's rent in advance, one month's rent (plus a 4.5% local tax) as an agency commission, and two months' rent as a (refundable) security deposit.

## Conclusion

Andorra isn't for everyone. If you're looking for iron-clad, official EU residency, then it's not the best residency option. But if you're wanting a lovely place to park yourself for a few months a year while you work on your Internet business, as well as de facto borderless living in Europe, Andorra makes for an intriguing, safe, beautiful residency flag.

I'm assuming very few people reading this can speak Catalan. But, it does help to be able to speak French or Spanish, if you are going to be living in Andorra.

It's also a stellar banking flag, so regardless of your residential desires, if you've got around €50,000 to invest, Andorra offers a safe haven that's welcoming even to US nationals.