Finance Committee of the German Parliament

Written submission in connection with the public hearing on various proposals on combating tax evasion

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This submission consists of two parts. The first part describes progress made on implementing exchange of information and tax transparency standards within the OECD area and outside the OECD area.

The second part describes recent initiatives in the development of multilateral instruments, defensive measures and voluntary disclosure rules and initiatives.

For further information please visit our web sites:

Centre for Tax Policy and Administration
www.oecd.org/ctp

Global Forum on Transparency and Exchange of Information for Tax Purposes
www.oecd.org/tax/transparency

PART 1
Implementing the peer review process and assessment of adherence to the international standard

Since the Saint Andrews G20 meeting on 7 November 2009, major progress has been made:

- in establishing the Global Forum with more than 90 members now confirmed;
- in launching the peer reviews with at least 40 reports to be finalised in 2010;
- in implementing the standard with over 440 agreements signed since April 2009.

The Global Forum is now fully operational

- The Global Forum is now fully established with more than 90 members confirmed and a number of developing countries approached to become members. All members are on an equal footing. Funding has been secured (the Forum budget is €2.9 million per annum). The Secretariat has been put in place. The Steering Group of the Global Forum, which includes 10 G20 countries, has already met twice, with the latest meeting hosted by India on 11-12 February 2010 and a Peer Review Group has also been created and has met twice.
- The Global Forum has adopted key principles, which are the foundations of the peer review process. These principles are encapsulated in Terms of Reference, Methodology and Assessment Criteria notes which are publicly available on the Global Forum website (www.oecd.org/tax/transparency). The Global Forum has also agreed a schedule of reviews.
- The Global Forum will meet in Singapore on 29-30 September 2010 and in Bermuda in spring 2011.
- The Global Forum will regularly report to the G20 on progress made by jurisdictions to implement full and effective exchange of information.

The peer review process is launched

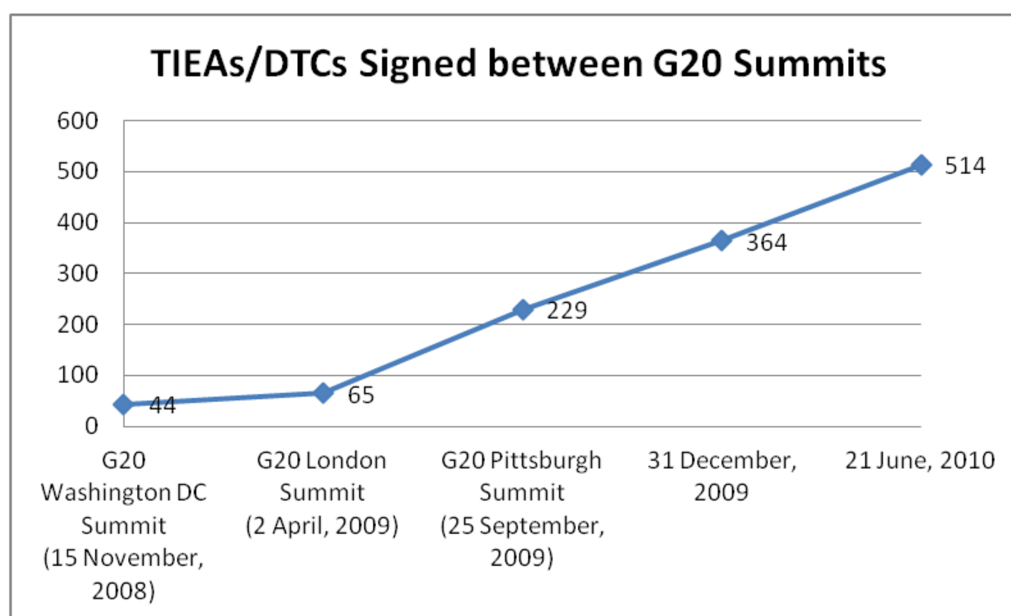
- Eighteen reviews were launched on 1 March. These include Phase 1 reviews and combined Phase 1 and Phase 2 reviews. The Peer Review Group will meet in July to examine the first draft reports which will be submitted for adoption at the next Global Forum meeting in Singapore. From then, it is expected to deliver more than 40 reviews each year. Phase 1 reports will determine whether a jurisdiction has put in place the elements necessary to achieve effective exchange of information or whether it has failed to do so. The reports will also include recommendations for improvement. Phase 2 reports will focus on jurisdictions' exchange of information in practice and will ultimately provide a rating of the jurisdictions' compliance with the standard (from Compliant to Non Compliant).
- The Global Forum Secretariat will do an on-going monitoring of progress made which will be reflected on the Global Forum website and in September the fifth update of its annual assessment report (Tax Co-operation: Towards a Level Playing Field) will be issued.

Continued progress towards adherence to the standard

- The international agreed standard is now universally accepted. Recently, Brazil and Chile have withdrawn their reservation to Article 26 of the OECD Model Tax Convention. Qatar joined the

Global Forum. Botswana, Ghana, Jamaica, and Trinidad and Tobago have been invited to join the Global Forum and other developing countries will be shortly invited to join the Global Forum.

- Since April 2009 over 440 agreements (297 Tax Information Exchange Agreements – TIEAs and 152 Double Tax Conventions – DTCs) have been signed or brought up to the standard by jurisdictions which were considered not to have substantially implemented the standard on 2 April 2009 (cf Chart I and Annex I).



- Austria; Andorra; The Bahamas; Chile; Hong Kong, China; Liechtenstein; Macao, China; Malaysia, Panama, the Philippines, San Marino and Singapore and have passed legislation aimed at implementing their commitments to the international tax standard.
- Costa Rica and Guatemala have initiated important legislative changes intended to allow them to meet the international tax standard.
- Since the issuance of the 2nd April 2009 Progress Report, 28 jurisdictions[1] – Andorra, Anguilla, Antigua and Barbuda, Aruba, Austria, Belgium, Bermuda, British Virgin Islands, Bahrain, Cayman Islands, Chile, Dominica, Gibraltar, Grenada, Liechtenstein, Luxembourg, Malaysia, Monaco, Netherlands Antilles, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Samoa, San Marino, Singapore, Switzerland, The Bahamas and the Turks and Caicos Islands – have moved to the category of jurisdictions having substantially implemented the standard.

[1] The Progress Report issued by the OECD Secretary General shows the most up-to-date position of the jurisdictions surveyed by the Global Forum - http://www.oecd.org/dataoecd/50/0/43606256.pdf - and information on when these 25 jurisdictions reached the threshold of 12 agreements can be found on the OECD's website - www.oecd.org/ctp/htp.

PART II
Progress with Multilateral Instruments, Extending the benefits to Developing Countries, Defensive Measures and Voluntary disclosure rules and initiatives.

A) Multilateralising the Process

The G20 London declaration of 2 April 2009 and the St Andrews' communiqué emphasise the potential role of multilateral instruments in speeding up the negotiating process and in giving less developed countries access to the benefits of a more co-operative transparent tax environment. The OECD has taken forward this mandate as follows:

1. The revised Multilateral Convention on Mutual Administrative Assistance in Tax Matters (the Convention) has been updated and is now aligned to the standard and will be opened to economies in transition and developing countries, making it a very powerful instrument for multilateral tax cooperation.

The Protocol updating the Convention was signed by 15 countries at the OECD Ministerial on 27 May, as a result of work carried out jointly by the Council of Europe and by the OECD. The Convention is a truly multilateral instrument, since it allows for multi-country administrative assistance. The Convention covers a wide range of taxes and contains provisions which ensure a high level of confidentiality. The scope of the Convention goes beyond exchange of information on request, as it also provides for other forms of assistance, such as spontaneous exchanges of information, automatic exchange of information, simultaneous examinations, service of documents and assistance in recovery of taxes.

The Convention gives countries flexibility in terms of scope and coverage, because it allows for the possibility of reservations on certain provisions. The Convention was in many ways ahead of its time when it was first drafted in 1988 and the recognition of its value to effective tax administration has only come about in recent times. However, as the Convention was drafted before the adoption of the internationally agreed standard on exchange of information, it did not provide for full exchange of information in all tax matters, without regard to a domestic tax interest requirement or bank secrecy. The amending Protocol lifts these impediments.

Once five Parties to the Convention ratify the amending Protocol, the amendments will enter into force and the process of associating emerging and developing countries can start.

2. Multilateral Negotiations leading to bilateral TIEA's: Small jurisdictions often lack the resources needed to conclude TIEAs quickly. Developing countries face similar resource limitations. Larger jurisdictions may consider negotiating TIEAs with small and geographically distant partners as a lower priority. To overcome these constraints the OECD has developed a new approach to negotiating TIEAs involving multilateral negotiations of bilateral TIEAs. It was launched in 2009 with the creation of three pilot projects:

- The Southern Caribbean Project, coordinated by the Netherlands, covers Antigua and Barbuda, Dominica, Grenada. Saint. Kitts and Nevis, Saint. Lucia and Saint Vincent and the Grenadines;

- The Northern Caribbean Project, coordinated by the United Kingdom, covers Anguilla, Montserrat and the Turks and Caicos Islands;

- The Pacific Project, which is coordinated by the OECD Secretariat, covers the Cook Islands, the Marshall Islands, Nauru, Samoa and Vanuatu.

Each of these projects has been very successful, with more than 100 TIEAs signed or nearing completion.

The multilateral negotiations initiative is now being extended to a number of other jurisdictions, including Belize, Costa Rica and Liberia. The approach will also be extended to developing countries seeking to reach agreement with jurisdictions.

3. Developing a Multilateral version of the 2002 Model Agreement on the Exchange of Information on tax matters: A multilateral version of this Agreement is now available accompanied by a draft protocol which is designed to facilitate the implementation of the multilateral approach. It is now up to countries to decide whether they wish to use this instrument.

B) Engaging Developing Countries

At the London Summit G20 leaders stated:

> "We are committed to developing proposals, by end 2009, to make it easier for developing countries to secure the benefits of a new co-operative tax environment."

Emerging economies are already drawing benefits from international changes in favour of more transparency and exchange of information. Argentina, China, India and South Africa have recently concluded a number of TIEAs or DTCs, including Article 26 of the OECD or UN Model Tax Conventions. Major non-OECD countries, including some within the G20, have withdrawn their reservations on the exchange of information provision of the OECD Model Tax Convention (Brazil, Chile, Malaysia, Romania, Serbia and Thailand). Today all of the 30 non-OECD countries which have formally set out their reservations on the OECD Model Tax Convention have removed their objections to the international standard on exchange of information incorporated into Article 26.

Developing countries often lack the resources and capacity to build effective tax administrations and although there have been improvements in revenue raising efforts over the last few years, half of sub Saharan African countries still mobilise less than 17% of their GDP in tax revenues, with many below 12%. The external environment also poses new challenges. The global shift away from tariffs has added to the problems of domestic revenue-raising and striking the right balance between an attractive tax regime for investment and growth, and securing the necessary revenues for public investment in physical and social infrastructures, is a key policy dilemma. Globalisation exacerbates these fiscal problems, as internationally mobile capital becomes more difficult to tax.

Offshore financial centres, broadly defined, reduce revenue available to developing countries where they act as a destination for income streams and wealth protected by a lack of transparency and show a refusal or inability to exchange information with revenue authorities who may have taxing rights in respect of that income or those assets. Data on revenues lost by developing countries from offshore non compliance is unreliable. Most estimates, however, exceed by some distance the level of aid received by developing countries ─ around USD 100 billion annually.

On the 28-29th January the OECD brought together developed and developing countries with business, International Organisations and NGOs at a high level meeting to discuss tax and development. The participants discussed how developing countries can best be supported to take advantage of the more transparent international environment, and to strengthen their tax systems. It was agreed that international organisations and bilateral donors can help developing countries to:

- Enter into exchange of information agreements for tax purposes, including through multilateral mechanisms where possible in order to ensure quick implementation;
- Create administrative structures to implement exchange of information mechanisms and to protect the confidentiality of information exchanged;
- Strengthen administrative capacity including audit mechanisms to enable developing countries to request and use information obtained under agreements efficiently and in a way which significantly increases the legitimate enforcement of their tax legislation;
- In broader terms such support also can help develop and restructure tax systems;
- Fighting corruption and enhancing integrity within tax administrations.

A task force was created to examine these issues and had its first meeting in Paris on 11 May (see Annex 2 for the outcomes).

C) Defensive measures

At both the London and Pittsburgh summit, Leaders indicated their readiness to take action against non-cooperative jurisdictions, including tax-havens. The OECD has been engaged in an on-going discussion on the measures the countries have taken to protect their tax base. These fall into three categories:

1. Domestic measures e.g. denying the deductibility of expenses incurred in non-cooperative jurisdictions

2. Tax treaty measures e.g. not entering into treaties with countries which refuse to provide with full exchange of information

3. Non-tax measures e.g. encouraging financial institutions to terminate their operations in NCJs

Countries have over the last 12 months introduced these measures, which are seen as appropriate to tackle non cooperative jurisdictions. Nevertheless, it is noteworthy that improving transparency and exchange of information is a work in progress. Many agreements have been signed and many more have been initialled but not yet signed for practical reasons. In addition, in spite of their willingness to negotiate and sign agreements quickly, a number of jurisdictions have difficulties finding available counterparts to negotiate with. This is due to the high level of activity over the last year which has meant that even large countries sometimes struggle to keep up with the demand for negotiations. Thus, it may be appropriate to allow more time for the current negotiation phase to be completed. This is the context within which the use of defensive measures should be considered.

D) Voluntary disclosure rules and initiatives

In the changing environment, previously non-compliant taxpayers are realising that there are no longer any safe havens to hide assets and income from tax authorities. A growing number of taxpayers who have failed to report income and assets to their country of residence now recognize that the risk of

detection has increased which in turn is leading to a greater willingness to disclose and correct their situation so as to become fully compliant.

Governments have and continue to recognise the need to deal firmly with taxpayers who have committed tax evasion and who have failed to come forward before being detected. But governments should also consider taking advantage of this more transparent environment to encourage non-compliant taxpayers to come forward voluntarily. This may not only lead to a short-term boost to revenues but could also strengthen the tax base in the long run.

In January 2010 the OECD released the *Framework for Successful Offshore Voluntary Compliance Programmes* (see Annex 3). In this report the OECD has developed a number of principles for successful offshore voluntary compliance programmes.

The OECD is also working on comparing in OECD member and observer countries the key features of offshore voluntary disclosure programmes, both general rules and specific programmes, to complement the framework document.

First results show that:

- Countries have different approaches to encourage non-compliant taxpayers to come forward on a voluntary basis, but that almost all countries have features in their general law (including their administrative practices) that in one form or another encourage voluntary disclosure. Furthermore some countries have recently had or still have a special programme. The consequences of a voluntary disclosure differ country-by-country.

- In the vast majority of countries the taxpayer must pay the amount of tax he or she would have owed in the absence of a voluntary disclosure. This situation is different under some special programmes pursuant to which the tax is reduced and / or computed differently (e.g. Greece and Italy).

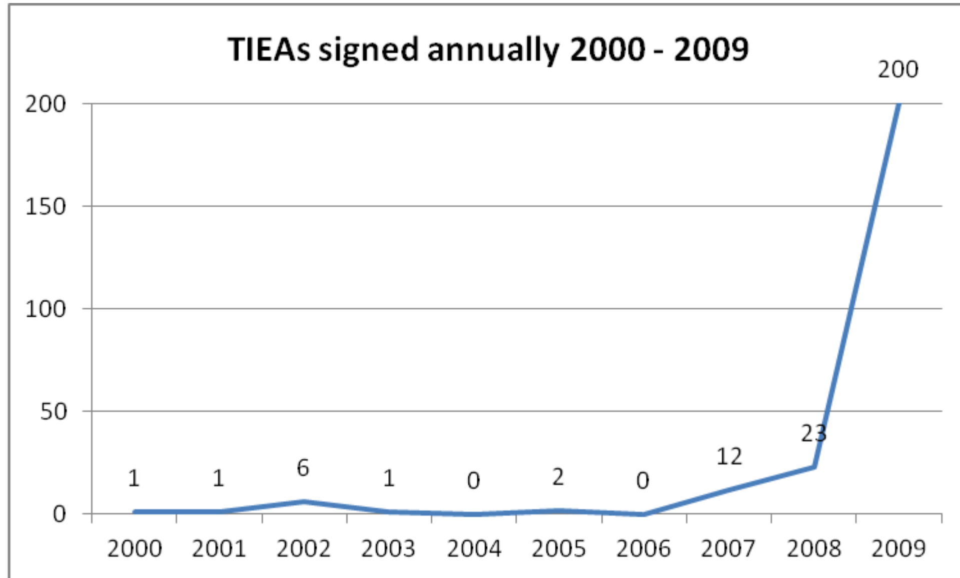
- In all countries taxpayers have to pay interest on tax evaded if their tax evasion is detected by the tax authorities and they have not made a timely and comprehensive voluntary disclosure. Interest charges are sometimes reduced in case of voluntary disclosure.

- In all countries taxpayers face monetary penalties in cases of tax evasion if a timely and comprehensive voluntary disclosure has not been made. It is possible in some countries that the combined monetary penalties can exceed the amount of the original undeclared income. However, a large number of countries reduce the monetary penalties to nil following a voluntary disclosure by the taxpayer. Even where penalties are not eliminated they are often substantially reduced in the case of a voluntary disclosure. Some countries restrict the mitigation of penalties to the first voluntary disclosure or to the first two disclosures.

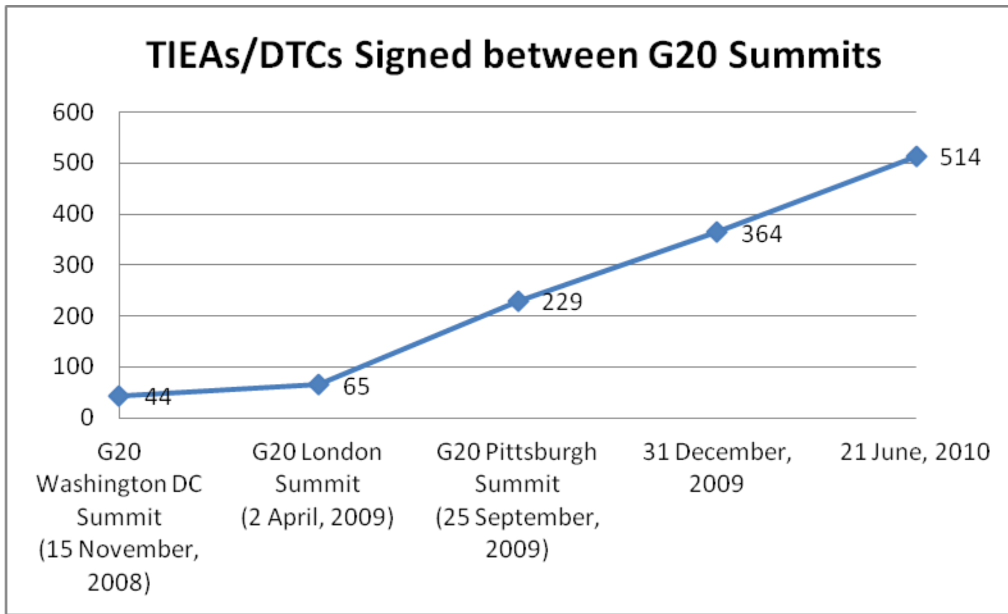
- In all countries taxpayers risk imprisonment if their tax evasion is detected by the tax authorities without them having made a timely and comprehensive voluntary disclosure. However, in most countries the non-compliant taxpayer can avoid imprisonment through a voluntary disclosure.

ANNEX 1

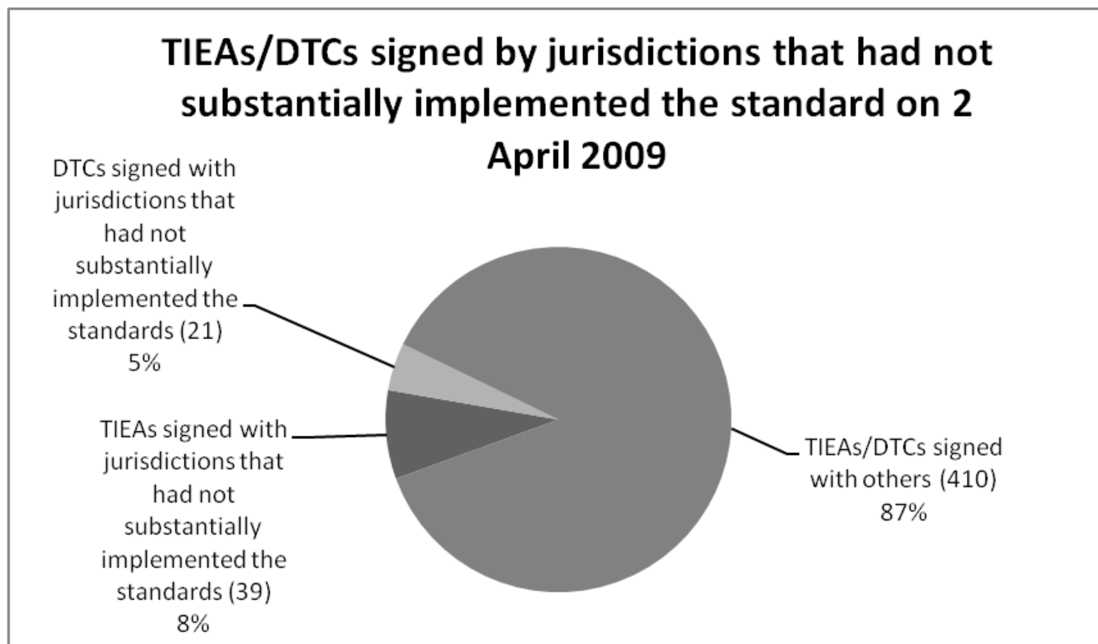
2009 – YEAR OF THE G20: IMPACT ON IMPLEMENTATION



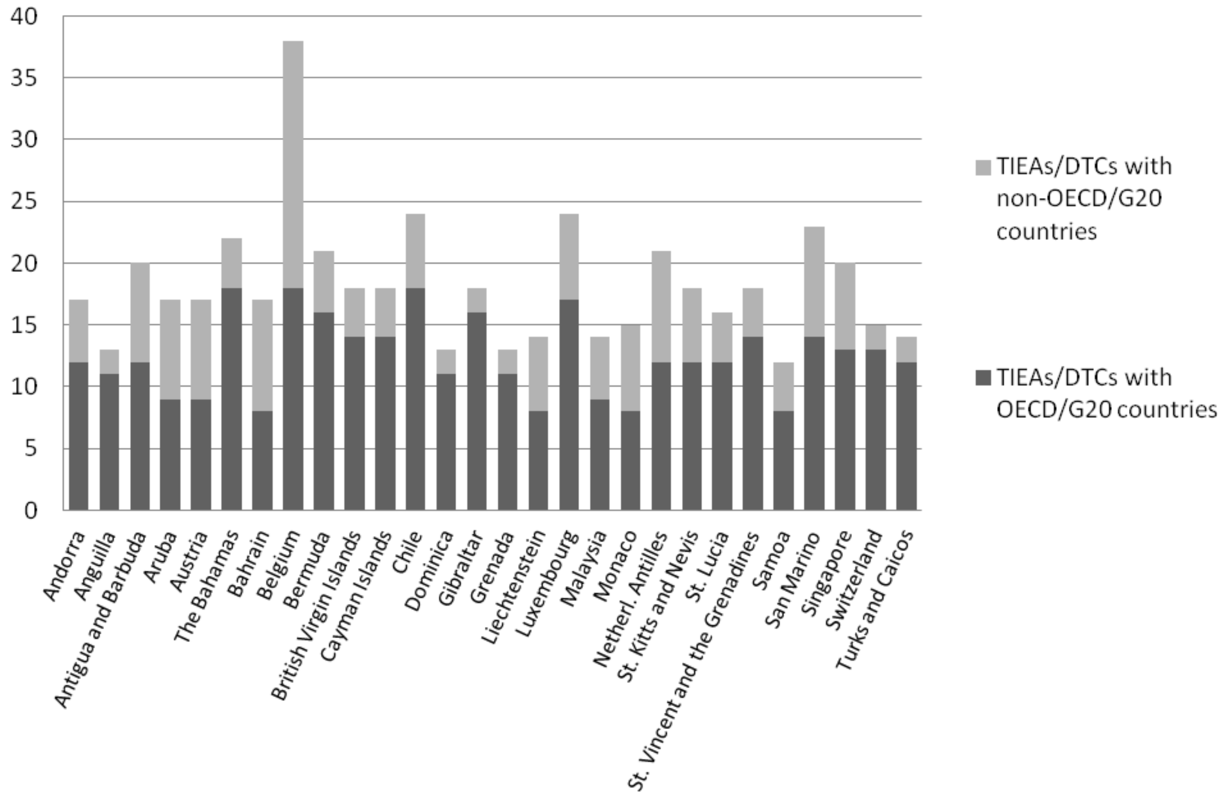
Up to the G20 Washington Summit on 15 November 2008 a total of 44 tax information exchange agreements (TIEAs) had been signed. Very few of the jurisdictions identified as not having substantially implemented the internationally agreed tax standard in the Progress Report issued in conjunction with the G20 Summit in London on 2 April had signed any double taxation conventions (DTCs) that met the standard. The 23 TIEAs agreed in 2008 were double the total number of agreements that had been signed since the Global Forum began in 2000. Following the G20 Summit in Washington and in the run-up to the London Summit in April 2009, TIEA signings increased dramatically, as well as the negotiation of new DTCs or protocols to existing DTCs that incorporated the standard on exchange of information. A further 21 TIEAs/DTCs were agreed in just four months, and between the London Summit and the G20 meeting in Pittsburgh in September 164 more agreements were in place. The pace accelerated further after the London Summit and by the end of the year a total of 36 jurisdictions working to substantially implement the standard had signed 200 TIEAs and upgraded 118 DTCs.



28 jurisdictions have been moved to the category of jurisdictions having substantially implemented the standard for having signed at least 12 agreements to the standard. Even though some offshore financial centres (OFCs) have signed agreements with other OFCs, the vast majority of agreements are with countries which have an interest in obtaining information for tax purposes. The chart below shows that only a very small percentage (13%) of the agreements signed since the November 2008 G20 Summit have been entered into between jurisdictions that had not substantially implemented the standard on 2 April 2009.



All of the 28 jurisdictions (see chart below) have reached the threshold of 12 agreements and continue negotiating and signing more agreements.



TIEAs/DTCs Signed with OECD/G20 Countries
40
35
30
25
20
15
10
5
0
Andorra
Anguilla
Antigua and Barbuda
Aruba
Austria
The Bahamas
Bahrain
Belgium
Bermuda
British Virgin Islands
Cayman Islands
Chile
Dominica
Gibraltar
Grenada
Liechtenstein
Luxembourg
Malaysia
Monaco
Netherl. Antilles
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Samoa
San Marino
Singapore
Switzerland
Turks and Caicos
TIEAs/DTCs with non-OECD/G20 countries
TIEAs/DTCs with OECD/G20 countries

ANNEX 2

Outcomes from the meeting of the Informal Task Force on Tax and Development on 11 May 2010

- The meeting was co-Chaired by the Netherlands and South Africa (also representing ATAF) and brought together representatives from the tax and aid communities from OECD (UK, US, Norway, Germany, Japan, France, Switzerland, Belgium, Spain, Italy), and developing countries as well as emerging economies (India, Uganda, Sierra Leone, Kenya, Zambia, Malaysia, Philippines, Vietnam), business (including BIAC and TUAC), international organisations (ATAF, EU, CIAT, ITC, ITD, UN), and NGOs (TJN, TJN Africa, Christian Aid, Eurodadd, and CCFD) .

- The purpose of the meeting was to introduce the informal Task Force; discuss its purpose, its characteristics (informal with a flexible membership) and objectives, and agree the draft terms of reference; discuss plans for a detailed work programme to be produced following the meeting, and agree next steps.

- The objective is to benefit developing countries through putting more resources into the tax area, assisting them in accessing the information necessary to enable their tax regimes to work better both raising revenue and strengthening good governance. In order to achieve that the task force will:

- First, the TF will set up **three sub groups** representative of all constituencies, to:

  1) Work on supporting developing countries on **exchange on information** working with the Global Forum, the World Bank and IMF, ATAF, and others to enable developing countries to increase numbers of bilateral or multilateral TIEAS, and to discuss how to assist in implementation of these agreements.

  2) Look at strengthening **transfer pricing implementation** in developing countries, including identifying best practices and encouraging South-South co-operation.

  3) Examine the issue of **county by country reporting**, develop a scoping paper for the next Task Force meeting and provide advice to the CFA regarding the Investment Committee's MNE Guidelines.

- In addition, the Task Force also asked the ITC, ITD and other interested international organisations to work together on the **mapping of international assistance** and developing country needs, building on the work already done in this area. The GOVNET was invited to work with the ITC, developing countries and civil society to work on **tax and state building** and on mechanisms for linking tax revenue to expenditure. Finally, the GOVNET were asked to track **aid dependency**, and aid directed to revenue function. Report in both areas were requested for the next meeting of the Task Force.

- The Co-Chairs also noted that Task Force work is open ended and when resources allow will consider looking at possible interaction in other areas such as taxation of the informal economy and broadening the tax base.

- This was a very successful start, further details of the amended Terms of reference, a fuller Summary record and further information on the construction of sub groups will follow in due course.

- The next meeting of the informal Task Force will be in November 2010.

ANNEX 3

A FRAMEWORK FOR SUCCESSFUL OFFSHORE VOLUNTARY COMPLIANCE PROGRAMMES

1. Offshore voluntary compliance programmes offer the opportunity to maximize the benefits of improvements in transparency and exchange of information for tax purposes, to increase short-term tax revenues and improve medium-term tax compliance. To succeed, they need to tread a fine line between encouraging non-compliant taxpayers to permanently improve their compliance (a balancing act in itself) and retaining the support and compliance of the vast majority of taxpayers who are already compliant. To do this, they need to form part of wider voluntary compliance and enforcement strategies. They also need to be consistent with relevant rules in the non-tax area such as anti-money laundering rules.

2. This section draws upon the experience of countries and identifies principles for reconciling those tensions in designing a successful offshore voluntary compliance programme as part of a wider tax compliance strategy. How these principles are implemented will be a matter for each country individually, taking into accounts its particular circumstances including its tax law and practice.

A. A successful programme will be clear about its aims and its terms

3. The aims of an offshore voluntary compliance programme are usually to deliver cost-efficient improvements in short-term tax revenues as well as to improve longer-term tax compliance. Sometimes a programme also aims to encourage repatriation of capital invested abroad[2], or uses a requirement for repatriation of capital as a means of achieving exchange of information to the OECD standard by requiring repatriation only where the assets concealed are held in a jurisdiction which does not exchange information[3]. Both to encourage take-up and to maintain existing levels of compliance, the aims of the programme should be clearly set out, both for those invited to participate and for the taxpaying population as a whole.

4. The terms of the programme usually involve a limited-time offer by the government to a specified group of taxpayers to settle undisclosed or unpaid tax liabilities for a previous period in return for defined concessions over civil or criminal penalties. In some cases there are also concessions over the amount of tax and/or interest payable, or over the period of back years for which unpaid tax will be demanded. The terms of the programme should be clearly set out in guidance accessible both to the eligible population and to others, to avoid both ambiguity and any charge of a lack of even-handedness on the part

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[2] For EU countries, conditions requiring repatriation of capital are subject to applicable rules on free movement of capital

[3] Countries are careful not to weaken the OECD information exchange standard by providing additional concessions simply for meeting the standard.

of the tax authority. It should also be clear how disclosures under the programme will be treated for anti money-laundering purposes[4].

B. A successful programme will have a demonstrable and cost-effective increase in short-term revenues

5. A short-term boost to revenues is often a primary goal of a voluntary compliance programme. That should be demonstrable in its own terms. This requires credible accounting for both the revenue gains and the related costs, which should include programme costs, plus the opportunity costs of revenues likely to have been secured (in the current and future years) without the programme.

6. Credible accounting for the net benefits of a programme does not necessarily involve detailed publication of all costs and benefits – the level of operational detail disclosed may vary from country to country, depending on the level of informed debate and transparency thought to be optimal for the country's tax compliance strategy generally. In some countries used to high levels of transparency, detailed publication of the net benefits of a programme may help to reassure compliant taxpayers that the government is acting in their interests to spread the tax burden fairly. This recognises that 100% compliance is unlikely to be cost-effective or acceptable to the general population, in terms of the level of enforcement it would imply, even if it were at all feasible. In other countries, detailed disclosure of amounts raised from a particular programme may lead taxpayers to question their own compliance – learning that the government has allowed this level of non-compliance in the past may make them feel cheated rather than appreciated.

C. A successful programme will be consistent with the generally applicable compliance and enforcement regime.

7. All compliance strategies aim to strike a balance between encouraging and supporting voluntary compliance and countering non-compliance, and taxpayers' perception of and response to that balance is crucial to their success. Unless carefully planned to fit with the prevailing strategy, a new offshore compliance programme could upset that balance with damaging consequence for compliance overall. This means there is a fine line to be struck between presenting the programme as both "business as usual" and as a "special opportunity". Ideally, there should be enough of a *perceived* incentive for the target population to take part, without so much of a *real* incentive as to alienate the majority who are already compliant.

8. Some programmes have addressed this by collecting the full amount of tax due on previously undisclosed income, and offering incentives to disclose only through either a clarification of, or a temporary reduction in, generally applicable levels of penalties, or interest and penalties. Similarly, arrangements for potential referral for criminal prosecution, or the number of years over which the revenue authority will look back, may be clarified, or temporarily alleviated, for the purpose of the programme. Other programmes have offered commitments to reduced audit (for past or future years) in return for defined increased in reported income.

9. Although evidence of long-term effects on compliance is not yet available, it is likely that the most successful programmes will be those which are able to link their terms with ongoing compliance and

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[4] More generally, the terms of a voluntary tax compliance programme should not imply exemption from anti-money laundering obligations either on the part of persons subject to anti-money laundering disciplines (banks, financial institutions, certain intermediaries, etc.) or on the part of the tax authority.

enforcement arrangements, while still appearing attractive in the short-term. A clarification of how existing discretion will be applied both in relation to penalties and in relation to a risk-based selection of cases for audit is more likely to support medium-term improvements in compliance than an approach which is out of kilter with normal procedures. It is also less likely to be manipulated by taxpayers seeking to play the system by taking the benefits of the programme but remaining fundamentally non-compliant. This could happen for instance if a taxpayer is able to make only a partial disclosure of evaded income but still qualifies for a promise of reduced future audit.

D. A successful programme needs specifically to improve levels of compliance among the population eligible for the programme

10. A growing number of taxpayers who failed to report income and assets to their country of residence now recognize that the risk of detection has increased which in turn is leading to a greater willingness to disclose and correct their situation so as to become fully compliant. A successful voluntary compliance programme should complement and reinforce this trend. If those who have deliberately evaded tax in the past find they are able to ignore or manipulate a voluntary compliance programme with no increased risk of being detected, this will only serve to reinforce their decision to evade (quite apart from the impact on the remainder of the population who were compliant already).

11. A successful programme therefore needs to be designed and resourced so as:

a) to create a substantially increased risk that those eligible for the programme but who choose not to participate are detected, and that - whether or not they participate - any tax previously evaded is substantially brought to light; and

b) to provide a tangible, credible and time-limited incentive for the eligible population to participate.

12. This in turn presupposes that there are adequate and credible enforcement measures in place to detect and deter evaders, including those who might otherwise choose not to participate in the programme, and those who might otherwise be tempted to slip back into non-compliance in the future. Depending on the applicable legal framework and country circumstances, that might include exemplary prosecution of those who defraud the programme.

13. At the same time, it should be made as easy as possible for those eligible for the programme to take the first step to come forward and participate, without allowing them to assume that they can put off participation by waiting for a similar programme in future.

E. A successful programme will place the short-term boost to revenues in the context of improving compliance across the taxpayer population as a whole by complementing it with measures that improve compliance in the medium term

14. A short-term boost to revenues from settlement of previously undisclosed revenues (assuming it exceeds the costs of the programme) should not be at the expense of long-term compliance. Tax evaders need to be brought into compliance for good – not reinforced in the belief that they need only comply when special terms are on offer. If the programme is presented as a one-off opportunity, that presentation must be credible.

15. The majority of the compliant population also needs to be reassured that the revenue authority expects compliance, and will effectively pursue those who are not compliant. If they see the revenue authority as tolerating non-compliance, overall levels of compliance could fall. Demonstrating short term revenue gains is important in securing medium-term compliance – signalling to the compliant majority that

the revenue authority is acting in their best interest in securing wider compliance on a cost-effective basis rather than selling them short.

16. The risk of a temporary relaxation in the terms of tax enforcement doing damage to medium-term compliance can be avoided if the programme is used to reinforce other measures to ensure sustainable compliance (including measures to ensure a sustainable improvement in the effectiveness of a revenue authority's enforcement measures). This has been a feature of a number of successful programmes in recent years.

- Recently, programmes have been introduced to accompany significant changes in the international tax environment in the area of information exchange including the dramatic increase in the number of TIEAs, changes to double tax conventions and rules on bank secrecy. A number of country programmes were also introduced in the 2000s in anticipation of the EU Savings Directive.

- Some country programmes have been triggered by new powers taken in legislation or confirmed by the courts for tax authorities to obtain information from banks on offshore accounts.

- Many programmes make clear that penalty (or in some cases interest) waivers as part of the programme will be matched by tougher penalties to be applied once the programme has ended, particularly for those who could have but chose not to take advantage of the programme. Or the programme could accompany an increase in tax penalties for evasion more generally.

17. There are benefits in this combined approach both for improving the compliance of the minority for whom the programme is designed and for maintaining compliance on the part of the majority. For the deliberately non-compliant, it establishes a credible expectation of compliance, rather than reinforcing the benefit of evasion. For those who may have inadvertently failed to disclose taxable income, it helps to build levels of awareness for the future in a supportive way. For the majority who already comply, it will stand a much better chance of reinforcing their compliant behaviour than programmes unaccompanied by other measures to improve medium-term compliance.