accomplished in Liechtenstein through extensive changes to the national legal foundations (see Tab. 2 below).

Implementation of the *Third Money Laundering Directive (2005)* on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing has advanced substantially and is expected to be adopted by Parliament in autumn 2008.

The *EU Savings Tax Agreement* signed by Prime Minister Otmar Hasler on 7 December 2004 and which entered into force on 1 July 2005 governs four areas, namely the taxation of cross-border interest payments by way of a withholding tax, voluntary information exchange, information exchange upon request, and a review mechanism for adjusting the agreement. Under the agreement, natural persons from the EU area have been subject to a withholding tax on capital income since 1 July 2005, which amounts to 15% in the first three years, will be raised to 20% for the following three years, and afterwards will amount to 35%. Beneficiaries have the option of disclosing their interest income voluntarily, in which case the withholding tax is waived.

*Association with Schengen and Dublin* enhances and deepens Liechtenstein's integration in Europe in the areas of justice, home affairs, and asylum. The Schengen Agreement, which Prime Minister Hasler signed on 28 February 2008 in Brussels and which was approved and ratified by Parliament on 27 June, also encompasses provisions on mutual legal assistance in criminal matters. Application of these provisions entails that Liechtenstein grants mutual legal assistance in cases of tax fraud and in some cases of evasion of indirect taxes. Mutual legal assistance is also granted if the request concerns execution of coercive measures (e.g. searches of business premises, seizure of bank records and other documents, questioning of witnesses such as bank employees, etc.).

The negotiations with the EU Commission since 2006 on the *EU Anti-Fraud Agreement* concern future cooperation in the case of both direct and indirect taxation and were concluded in terms of substance on 27 June 2008.

*Bank client confidentiality*, which is often discussed, is and will continue to be an important aspect of Liechtenstein's understanding of the legitimate private sphere of every individual citizen. However, it does not offer protection from criminal prosecution of criminal acts. Schengen expands mutual legal assistance in criminal matters in the cases of tax fraud and in some cases of evasion of indirect taxes. Schengen also simplifies the relevant procedures. For instance, law enforcement authorities may now transmit requests for mutual legal assistance directly instead of via the justice ministries, and court documents may now be served directly by mail. Simplified extradition is also available if the affected person consents.